Supreme Court, U.S.
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No. 00-___

IN THE

Supreme Court of the United States

CSU, L.L.C.,

Petitioner,

v.

XEROX CORPORATION,

Respondent.

Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

Whether this Court should resolve the circuit conflict—expressly acknowledged by the Federal Circuit below—on whether a company with a monopoly in a market for products containing patented or copyrighted material is immune from antitrust liability and from a finding of patent or copyright misuse when that company selectively refuses to license or sell those products in order to monopolize a separate market.

PARTIES TO THE PROCEEDINGS AND RULE 29.6 STATEMENT

CSU, L.L.C. was the appellant below and is the petitioner in this Court. CSU, L.L.C. has no parent corporation, and no publicly held company owns 10% or more of its stock.

Xerox Corporation, a publicly held company, was the appellee below and is the respondent in this Court.

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PETITION FOR A WRIT OF CERTIORARI

CSU, L.L.C. ("CSU") respectfully petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Federal Circuit in this case.

OPINIONS BELOW

The opinion of the Court of Appeals for the Federal Circuit is reported at 203 F.3d 1322 and reproduced in the appendix hereto ("App.") at 1a.

The December 22, 1997 Memorandum and Order of the District Court denying CSU's motion for reconsideration and granting Xerox's motion for reconsideration is reported at 989 F. Supp. 1131 and reproduced at App. 21a. The July 17, 1997 Memorandum and Order of the District Court denying

CSU's motion for reconsideration and granting certification for appeal is unreported and reproduced at App. 46a. The April 8, 1997 Memorandum and Order of the District Court granting Xerox's motions for reconsideration and summary judgment is reported at 964 F. Supp. 1479 and reproduced at App. 56a. The March 21, 1997 Memorandum and Order of the District Court denying Xerox's and CSU's motions for summary judgment is reported at 964 F. Supp. 1469 and reproduced at App. 78a. The March 19, 1997 Memorandum and Order of the District Court denying Xerox's motion for summary judgment is reported at 964 F. Supp. 1454 and reproduced at App. 97a.

JURISDICTION

The judgment of the Court of Appeals was entered on February 17, 2000. App. 1a. On April 13, 2000, that court denied a timely filed petition for rehearing or rehearing en banc. App. 125a. The jurisdiction of this Court is invoked pursuant to 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

Section 2 of the Sherman Antitrust Act, 15 U.S.C. § 2, provides:

> Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a felony, and, on conviction thereof, shall be punished by fine not exceeding $10,000,000 if a corporation, or, if any other person, $350,000, or by imprisonment not exceeding three years, or by both said punishments, in the discretion of the court.

Section 15(a) of the Sherman Antitrust Act, 15 U.S.C. § 15(a), provides in pertinent part:

> [A]ny person who shall be injured in his business or property by reason of anything forbidden in the antitrust

> laws may sue therefor in any district court of the United States in the district in which the defendant resides or is found or has an agent, without respect to the amount in controversy, and shall recover threefold the damages by him sustained, and the cost of suit, including a reasonable attorney's fee.

INTRODUCTION

This petition calls upon the Court to resolve a direct conflict among the courts of appeals over a recurring question of national importance involving the intersection between antitrust and intellectual property law. In *Eastman Kodak Co.* v. *Image Technical Services, Inc.*, 504 U.S. 451 (1992) ("*Kodak*"), this Court held that a photocopier manufacturer with a monopoly over the replacement parts and diagnostic software for its machines violates Section 2 of the Sherman Act, 15 U.S.C. § 2, if it unilaterally refuses, without a valid business justification, to sell or license those items to independent service organizations ("ISOs"), thereby preventing them from competing in the separate market to service those machines. This case involves the same conduct, in the same industry. Like Kodak, respondent Xerox is a photocopier manufacturer with a monopoly over its replacement parts and diagnostic software. Like Kodak, Xerox attempted to eliminate competition in the separate service market by denying those items to ISOs, including petitioner CSU. Yet the Federal Circuit held that Xerox is immune from the antitrust laws as construed in *Kodak*, simply because it holds patents and copyrights over some of the items it has denied to CSU.

As the Federal Circuit itself expressly recognized, its decision directly conflicts with the decision of the Ninth Circuit in *Image Technical Services, Inc.* v. *Eastman Kodak Co.*, 125 F.3d 1195 (9th Cir. 1997) ("*Image Technical Services*"), *cert. denied*, 523 U.S. 1094 (1998). That decision arose after this Court's decision in *Kodak*, when the case was remanded for

trial on the plaintiff ISO's antitrust claims. A jury found Kodak liable under Section 2 based on the same conduct at issue here and Kodak appealed, arguing that patents and copyrights covering its replacement parts and software gave it absolute immunity from any antitrust liability based on a refusal to sell or license those items. The Ninth Circuit in *Image Technical Services* rejected that argument and upheld the jury's verdict. The Federal Circuit in this case, however, "decline[d] to follow *Image Technical Services*." App. 10a. Instead, the Federal Circuit held that ownership of patents or copyrights immunized conduct that would otherwise constitute an antitrust violation under this Court's decision in *Kodak*. This ruling not only conflicts with the Ninth Circuit's decision in *Image Technical Services*, but also with this Court's pronouncement in *Kodak* that "power gained through some natural and legal advantage *such as a patent [or] copyright* * * * *can* give rise to [antitrust] liability if 'a seller exploits his dominant position in one market to expand his empire into the next.' " *Kodak*, 504 U.S. at 479-480 n.29 (citation omitted; emphasis added).

This conflict—if allowed to stand—would foster chaos in the law, as sharply different interpretations of the Sherman Act would apply to the same conduct depending on whether an appeal would lie to the Ninth or Federal Circuit—a distinction turning on what ancillary claims or counterclaims might be raised, which cannot be determined in advance. This chaotic situation can even occur within a single action if infringement claims or counterclaims are asserted involving both copyrighted and patented property.

Moreover, the issue is recurring, and of national importance. Many of the Nation's critical economic resources involve patented or copyrighted items. The Federal Circuit has held that a patent or copyright owner, unlike any other property owner, has absolute immunity from antitrust liability based on a refusal to sell or license its intellectual property, regardless of whether that conduct is undertaken to

monopolize a separate market. That blanket immunity is contrary to decades of precedent from this Court—culminating in *Kodak*—holding that owners of intellectual property are not entitled to use that property in a manner that violates the antitrust laws. The Court should grant certiorari to resolve the conflict in the lower courts over the proper resolution of this important issue.

STATEMENT OF THE CASE

1. Xerox's Use of Monopoly Power to "Stamp Out" CSU. Xerox manufactures, sells, and services photocopiers and printers. CSU is an ISO that specializes in servicing and refurbishing photocopiers and printers manufactured by Xerox. In 1984, CSU began competing with Xerox to service Xerox copiers and printers in metropolitan Kansas City, Missouri. By the end of 1988, CSU had plans to expand to four more cities by 1990, and to three or more additional cities in each of the next four years. In January 1989, CSU expanded to St. Louis. *See* App. 113a.

CSU's success as a competitor did not go unnoticed at Xerox. An internal Xerox memorandum discussing CSU urged Xerox "to stamp out the ISOs once and for all." Ct. App. J.A. 486. Other Xerox internal documents referred to a "war" with ISOs, used the acronym "PTFOOB"—for "Put Those 'Fellas' Out of Business"—and stated that Xerox's goals were "to capture 100% of the Service Market on Xerox Equipment" and to "deliver a knock out punch" to ISO competition. *Id.* 562, 490, 487, 556.

To accomplish this objective, Xerox did not rely on any superior business expertise or ability to service its machines, but rather used its monopoly power over the replacement parts and diagnostic software needed for ISOs to compete in the Xerox service market. In 1984, Xerox introduced its "Parts Policy," which declared that Xerox would refuse to sell certain replacement parts—both patented and unpatented—to an ISO unless the ISO was an end-user of the

product. *See id.* 476-478. In other words, Xerox would sell parts only if the buyer would not use those parts to compete with Xerox in the service market. In 1987, Xerox expanded the Parts Policy to apply to additional copiers and to all new Xerox products. *See* App. 3a; Ct. App. J.A. 479-481; *see also id.* 406-408 (1989 restatement).

Xerox did not enforce its Parts Policy in earnest until 1989, when CSU expanded to St. Louis. At that time, "Xerox representatives decided that the only way to stop the competitive threat posed by ISOs, such as CSU, was to cut off the parts availability to these parties." App. 100a. In early 1989, Xerox cut off CSU's direct purchase of covered parts and canceled CSU's subscriptions to service manuals. App. 3a, 114a. In June 1989, Xerox stepped up enforcement of its Parts Policy by imposing an "on-site end-user verification" procedure on CSU and other ISOs, to assure itself that these entities were not purchasing parts to be used in providing service in competition with Xerox. App. 3a, 100a. Xerox also "unbundled" diagnostic and operating software, thereby preventing CSU from accessing critical diagnostic software previously embedded in the operating software sold with the machines. App. 92a.

Xerox *admitted* below that protection of its intellectual property rights was "not one of the reasons why [Xerox] adopted the parts policy." Ct. App. J.A. 588-589. Rather, as the Court of Appeals noted, Xerox's goal was to "eliminate ISOs in general and CSU in particular as competitors in the relevant service markets for high speed copiers and printers." App. 4a.[1] In fact, the *only* relationship between the Parts

[1] *See, e.g.*, Ct. App. J.A. 505-507 (cover memorandum to 1987 Parts Policy stating that sale of parts and other materials to ISOs was contrary to Xerox's objective of increasing service revenues); *id.* 503 (conclusion by Xerox representatives that "the only way really to stop the [ISO] problem is to simply cut off the parts availability to this third-party"); *id.* 547 (memorandum from Xerox executive relaying view that "identifying sources of unauthorized parts sales and eliminating them is the single most important step

Policy and Xerox's intellectual property was their use in tandem to defeat ISO competition. Xerox's decision to use patents and copyrights as a weapon to defeat ISO competition in the service market included use of copyrighted software to "lock customers to Xerox." Ct. App. J.A. 562; *see also id.* 520 (noting Xerox's intent to "[p]osition" diagnostic software as intellectual property to defeat ISO competition).

As a result of Xerox's actions, CSU lacked an assured source of supply of the parts necessary to engage in its business of servicing Xerox machines. App. 100a. Shortly after Xerox began enforcing its Parts Policy, CSU put its expansion plans on hold until 1994. App. 114a.

In 1994, Xerox settled a class action brought by ISOs alleging that the Parts Policy violated the antitrust laws. Xerox agreed to suspend its Parts Policy until the end of 2000, to license diagnostic software until the end of 1998, to distribute $223 million in coupons to customers and $2 million in coupons to ISOs, and to pay $35 million in attorneys' fees and expenses. *See* App. 4a; Ct. App. J.A. 409-445. CSU opted out of that settlement.

Following the settlement, Xerox resumed selling parts to ISOs. But although it was required by the settlement agreement to sell parts to ISOs, Xerox knew that "it could achieve the same effect as not selling the product[s] by charging exorbitant prices for those products." App. 101a. It therefore "intensified its efforts to use price as a weapon to defeat ISO competition in the service market," and "intentionally

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toward successfully competing with ISO's"); *id.* 553 (statement of Xerox manager that, because Xerox was the only manufacturer for a critical replacement part, the company should "focus on controlling this one critical part and virtually cripple the ISOs"); *id.* 591 at 216-217 (testimony of Xerox manager that a high ranking executive insisted on denying parts to ISOs because he wanted to "shut the bastards down"); *id.* 594-595 at 139-140 (testimony of Xerox Executive Vice President that objective of Parts Policy is for Xerox to provide all service for Xerox equipment).

set the prices of its patented parts at high levels to act as a weapon against ISOs and to maintain Xerox's monopoly of the service market." *Id.* There is evidence that since 1994 Xerox has charged ISOs about *four times* as much as it charges self-servicers for parts, and has imposed markups of *2000% or more* on parts its sells to ISOs. *Id.*

2. District Court Proceedings. In 1994, CSU filed a complaint against Xerox, alleging that Xerox violated Section 2 of the Sherman Act by monopolizing and attempting to monopolize markets for service of Xerox high-volume copiers and printers. Xerox filed counterclaims alleging, among other things, that CSU infringed various Xerox patents after the class action settlement and infringed Xerox's copyrights on diagnostic software. Following discovery, Xerox moved for summary judgment on both CSU's antitrust claims and its own counterclaims.

In March 1997, the District Court denied Xerox's motions for summary judgment. As to Xerox's patent infringement counterclaims, the court held that CSU may have a valid defense of patent misuse. App. 102a-109a.[2] Rejecting the argument "that patent and copyright holders can never be guilty of misuse based on their unilateral refusal to sell or license a product," App. 107a, the court observed that a monopolist's right to refuse to deal " 'is not absolute,' " but exists only " 'if there are legitimate competitive reasons for the refusal.' " App. 103a (citation omitted). The court reasoned:

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[2] The misuse doctrine prevents a finding of patent or copyright infringement where (among other reasons) the patent or copyright has been used in violation of the antitrust laws. *See, e.g., W.L. Gore & Assocs., Inc.* v. *Carlisle Corp.*, 529 F.2d 614, 622 (3d Cir. 1976) ("Where a patent has been used in violation of the antitrust laws, the holder cannot then restrain infringement of the patent by others."). CSU's misuse defenses to Xerox's infringement claims are based on the same conduct underlying CSU's antitrust claims, and the Federal Circuit rejected both arguments for the same reasons. App. 10a n.2. This petition seeks review of both holdings.

> In essence, Xerox suggests that an unlawful end (monopolization of the service market) cannot be accomplished by lawful means (refusal to sell or license its patented and copyrighted products). This proposition has been rejected in almost every area of the law, including antitrust law. [App. 109a (citation omitted).]

Likewise, the District Court found sufficient factual support for CSU's defense of copyright misuse. As the Court held, "CSU has presented evidence that Xerox unbundled its diagnostic software from its operating system software and refused to license diagnostic software to ISOs specifically as a tool to defeat ISO competition in the copier and printer service market." App. 92a-93a. Thus, the court found "sufficient evidence for a jury to find that Xerox misused its copyrights by expanding the scope of its copyrights beyond the parts market into the service market." App. 93a.

The court then denied Xerox's motion for summary judgment on CSU's antitrust claims for the same reasons, App. 115a, holding in addition that CSU's claim of exclusionary pricing stated a valid claim. The court rejected Xerox's argument that it had an absolute "right to charge as high a price as it sees fit" for patented parts, noting that pricing "can be subject to antitrust scrutiny in certain circumstances." App. 115a, 116a (citation omitted). It held that "Xerox's pricing scheme must be viewed in light of all of CSU's allegations of Xerox's anticompetitive conduct and attempt to monopolize the copier and printer service markets." App. 117a.

Xerox moved for reconsideration, and on April 8, 1997—less than three weeks after denying Xerox's motions for summary judgment—the District Court reversed itself. It granted the motion for reconsideration, rejecting most of its just-issued rulings, and granted partial summary judgment for Xerox on the antitrust claims and patent infringement counterclaims. *See* App. 56a-77a.

As to CSU's antitrust claims, the District Court noted that Xerox, for purposes of its motion, did not dispute that it has monopoly power in both the parts and service markets. App. 68a. The court held, however, that "Xerox's unilateral refusal to sell or license its patented parts cannot give rise to antitrust liability," App. 74a, regardless of whether that conduct was part of an effort to obtain or maintain a monopoly in the separate service market. Reversing its own previous position, *see* App. 104a, the court dismissed as inapplicable dicta this Court's express statement that "power gained through some natural and legal advantage such as a patent [or] copyright * * * can give rise to [antitrust] liability if 'a seller exploits his dominant position in one market to expand his empire into the next.' " *Kodak*, 504 U.S. at 479-480 n.29 (citations omitted). *See* App. 72a-73a. The court then held that "if Xerox could lawfully refuse to sell its patented parts, it certainly could price its parts at a price as high as it sees fit." App. 75a. On July 17, 1997, the District Court denied CSU's motion for reconsideration. App. 46a.

CSU then filed a second motion for reconsideration, in light of the Ninth Circuit's intervening decision in *Image Technical Services*. The District Court, however, squarely rejected the Ninth Circuit's decision. *See* App. 25a ("[W]e decline to follow the Ninth Circuit's holding in *Kodak*."). The court reiterated its view that "where a patent or copyright has been lawfully acquired, subsequent conduct permissible under the patent or copyright laws cannot give rise to any liability under the antitrust laws." *Id.* *See also* App. 40a ("The key to our * * * rulings * * * is that Xerox's refusal to license is expressly authorized by patent law and therefore immune from antitrust scrutiny."). The court also extended this reasoning to Xerox's copyright claims. App. 42a-45a.

After a trial to determine damages on Xerox's copyright infringement counterclaim, *see In re Independent Serv. Orgs. Antitrust Litig.*, 23 F. Supp. 2d 1242 (D. Kan. 1998), the District Court directed entry of final judgment in favor of

Xerox. App. 15a. The court directed entry of judgment of liability on Xerox's patent claims, reserving the issues of willful infringement and damages for trial after appeal of that judgment, as is expressly permitted by 28 U.S.C. § 1292(c)(2). The court also directed entry of judgment in favor of Xerox on its copyright claim and CSU's antitrust claims, certifying those dispositions as final judgments under Fed. R. Civ. P. 54(b). App. 19a. On January 11, 1999, the Clerk entered final judgment on all claims. Ct. App. J.A. 1.

3. The Court of Appeals Decision. CSU appealed to the Federal Circuit, arguing that Xerox's right to decide how it will license its intellectual property did not include the right to leverage its patents and copyrights to monopolize the separate service market. CSU relied, in part, on *Image Technical Services*. Xerox responded by arguing that its right "to refuse to license is absolute and inviolable," and urging the Federal Circuit to "reject the Ninth Circuit's [*Image Technical Services*] decision." Ct. App. Br. 8, 45.

The Federal Circuit did just that. The crux of the court's holding was the following statement:

> In the absence of any indication of illegal tying, fraud in the Patent and Trademark Office, or sham litigation, the patent holder may enforce the statutory right to exclude others from making, using, or selling the claimed invention *free from liability under the antitrust laws*. [App. 10a (emphasis supplied).]

Applying this rule, the court affirmed the dismissal of CSU's antitrust claims and misuse defenses to Xerox's counterclaims because, in the court's view, the case involved only a unilateral refusal to deal rather than concerted tying behavior, and did not involve allegations of fraud upon the Patent Office or sham litigation.[3]

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[3] The Federal Circuit did not separately consider CSU's claims that Xerox violated the Sherman Act and engaged in patent and copyright misuse after the 1994 class action settlement by selling

In adopting this absolute immunity from antitrust liability for any unilateral exercise of otherwise valid patent rights, the Federal Circuit expressly declared its holding to be in conflict with that of the Ninth Circuit. As the court stated, "[w]e decline to follow *Image Technical Services*." App. 10a.

CSU filed a timely petition for rehearing or rehearing en banc, which the court denied on April 13, 2000. App. 125a.

REASONS FOR GRANTING THE WRIT

I. THE DECISION BELOW CONFLICTS WITH THE DECISIONS OF OTHER CIRCUIT COURTS

The petition should be granted because the Federal Circuit's decision directly conflicts with the decisions of other circuit courts. *See* S. Ct. Rule 10(a). As a result of that conflict, as explained below, the legality of the conduct at issue in this case now depends not only on where a case might be brought, but also on such factors as whether such a case might involve a claim within the appellate jurisdiction of the Federal Circuit, whether it also involves copyright claims, and whether the conduct might be the subject of a Federal Government enforcement action. The Court should not allow this confusion to persist, and should grant certiorari.

The conflict between the decision below and the Ninth Circuit's decision in *Image Technical Services* could hardly be more stark. The cases involve the same claim (a violation of Section 2 of the Sherman Act) arising out of the same conduct (a unilateral refusal to sell or license parts and diag-

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parts and related materials to ISOs only at exorbitant prices in order to monopolize the service market. It appears that the court adopted the District Court's view that because Xerox had the absolute right to refuse to sell or license such items, it had the right to charge as much for them as it wished. This petition challenges the Federal Circuit's ruling rejecting CSU's claims and defenses based on Xerox's exclusionary pricing, as well as those based on Xerox's outright refusals to sell or license.

nostic software to ISOs) in the same markets (photocopier parts and service). In *Image Technical Services*, the Ninth Circuit rejected the contention that Kodak's patents and copyrights immunized it from Section 2 liability based on a unilateral refusal to sell or license parts and software. Relying on this Court's decision in *Kodak* and the First Circuit's decision in *Data General Corp.* v. *Grumman Systems Support Corp.*, 36 F.3d 1147 (1st Cir. 1994), the Ninth Circuit held that " 'exclusionary conduct can include a monopolist's unilateral refusal to license a [patent or] copyright,' or to sell its patented or copyrighted work," although a patent or copyright holder's " 'desire to exclude others from its [protected] work is a presumptively valid business justification for any immediate harm to consumers.' " *Image Tech. Servs.*, 125 F.3d at 1218 (bracketed material in original) (quoting *Data General*, 36 F.3d at 1187). The Ninth Circuit found that the presumption had been rebutted by evidence that Kodak's purported intellectual property justifications were pretextual, given that Kodak (like Xerox here) denied ISOs both patented *and* unpatented parts. *Id.* at 1219-20.

In this case, by contrast, the Federal Circuit "decline[d] to follow *Image Technical Services*." App. 10a. Instead, the court held that any unilateral refusal to sell or license valid intellectual property rights is immunized from both antitrust liability and a finding of misuse, regardless of whether such a refusal has the effect of monopolizing a secondary market. As the Federal Circuit explained, absent illegal tying, fraud on the Patent Office, or sham litigation, a "patent holder may enforce the statutory right to exclude others from making, using, or selling the claimed invention free from liability under the antitrust laws." *Id.* *See also* App. 11a ("Xerox was under no obligation to sell or license its patented parts and did not violate the antitrust laws by refusing to do so."); App. 14a ("Xerox's refusal to sell or license its copyrighted works was squarely within the rights granted by Congress to the

copyright holder and did not constitute a violation of the antitrust laws."); App. 10a n.2 (rejecting misuse defenses).

The conflict is thus clear and direct.[4] One interpretation of Section 2 of the Sherman Act applies to cases within the jurisdiction of the Ninth Circuit, while a radically different interpretation applies to the same conduct in cases within the jurisdiction of the Federal Circuit.[5]

Moreover, the decision below also conflicts with the view of the First Circuit. As noted above, *Image Technical Services* followed the First Circuit's holding that unlawful "exclusionary conduct *can* include a monopolist's unilateral refusal to license a copyright." *Data General*, 36 F.3d at 1187 (emphasis added). The Federal Circuit rejected this view, holding that so long as a patent or copyright was not

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[4] Following the District Court's decision in this case, commentators noted the conflict between that decision and *Image Technical Services*. *See, e.g.*, Jeff Loew, *In re Intel Corp.* [hereinafter, "Loew"], 15 Berkeley Tech. L.J. 333, 342 (2000) (District Court in this case "explicitly rejected the *Image Technical Services* reasoning"); Charles L. Freed, *Antitrust and the Duty to License Intellectual Property—Can Manufacturers be Compelled to Deal With ISOs?*, 14 Antitrust 33, 34 (Fall 1999) (District Court "directly challenged and rejected the Ninth Circuit's holding in *Kodak*"); Ronald S. Katz *et al.*, *Intellectual Property v. Antitrust: A False Dilemma* (American Law Inst. 1999) (District Court decision in this case was "plainly contrary" to *Image Technical Services*). The Federal Circuit has now extended that recognized conflict to the circuit court level.

[5] The Federal Circuit also found that its decision was "further supported" by a provision of the Patent Act, 35 U.S.C. § 271(d)(4), but did not hold that this statute expressly precluded CSU's claims and defenses. App. 7a. To the extent the patent statute was necessary to the court's holding—which it clearly was not, at least on the copyright claims—the Federal Circuit's interpretation directly conflicts with the Ninth Circuit's decision in *Image Technical Services*. In that case, the court squarely held that Section 271(d)(4) does not apply to claims of the sort at issue in this case. *Image Tech. Servs.*, 125 F.3d at 1214 n.7.

acquired fraudulently, a unilateral refusal to license that property can *never* violate the Sherman Act.[6]

The direct conflict among the lower courts is itself sufficient grounds for a grant of certiorari in this case. *See, e.g., Braxton* v. *United States*, 500 U.S. 344, 347 (1991) (a "principal purpose" of certiorari jurisdiction "is to resolve conflicts among the United States courts of appeals"). But the conflict engendered by the decision below is particularly pernicious. In light of the unusual claim-based jurisdiction of the Federal Circuit, the legality of a monopolist's refusal to sell or license products involving intellectual property now depends not only on where an antitrust claim might be brought, but also on what type of ancillary claims or counterclaims could be brought in the case.

The Federal Circuit's jurisdiction over civil actions involving private parties extends to actions involving non-frivolous patent claims. *See* 28 U.S.C. § 1295; *DSC Communications Corp.* v. *Pulse Communications, Inc.*, 170 F.3d 1354, 1359 (Fed. Cir.), *cert. denied*, 120 S. Ct. 286 (1999). As demonstrated by *Image Technical Services* and *Data General*—both of which involved antitrust claims and intellectual property defenses, but no affirmative patent claims—there is no necessary correlation between an antitrust claim based on a unilateral refusal to sell or license intellectual property and a claim for patent infringement. Thus, as occurred in those cases, an antitrust claim that is not accompanied by a non-frivolous patent claim or counterclaim will be appealed to the appro-

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[6] In *Data General*, the court found that the plaintiff had not overcome the presumption of a valid business justification, but made clear that it "[did] not hold that an antitrust plaintiff can never rebut this presumption * * * ." *Id.* at 1187 n.64. The Federal Circuit, contrary to the Ninth Circuit, interpreted *Data General* as holding that a unilateral refusal to license copyrighted material can violate the Sherman Act *only* if the copyright were fraudulently obtained. *See* App. 12a-13a. The *Data General* decision contains no such limitation. But in any event, the confusion on this point only heightens the conflict among the circuits.

priate regional circuit rather than the Federal Circuit. As a result, a party seeking guidance as to whether a monopolist's refusal to license or sell items involving intellectual property violates the Sherman Act faces the nearly impossible task of determining not only in which circuit or circuits a case might be brought, but also whether a non-frivolous patent claim could conceivably be asserted.

The decision below also creates perverse incentives for putative antitrust defendants to assert questionable patent claims or refuse to settle others, simply for the purpose of manufacturing Federal Circuit jurisdiction. As one attorney has noted, "[g]iven the clear holdings of the Federal Circuit, many defendants will want to make certain that the appeal of the district court decision lies in that forum" and "one might attribute the difference in the outcome between the *Xerox* case and the *Image Technical* case to Xerox's strategy of counterclaiming for patent infringement." Mark G. Schildkraut, *Using IP as a Basis for a Refusal to Deal: The Federal Circuit Decisions in* Intel *and* Xerox 10, in American Bar Ass'n, Sections of Antitrust and Intellectual Property Law, *Antitrust and Intellectual Property: The Crossroads* 304 (June 2000). The specter of such forum-shopping is yet another reason why this Court should resolve the conflict.

The confusion in the law, moreover, is exacerbated because the interpretation of the Sherman Act will vary depending not only on whether a case might involve a patent claim, but also on whether the case might involve other forms of intellectual property. In the decision below, the Federal Circuit made clear that it will apply its own understanding of antitrust law and the misuse doctrine to claims implicating patent law, but will apply the law of the regional circuit where the case arose to identical claims implicating copyright law. Thus, the court applied Federal Circuit law to Xerox's refusal to sell or license its patented parts, yet applied the law of the Tenth Circuit to Xerox's refusal to sell or license its copyrighted material. App. 6a. In this case, the court adopted the same

holding on both claims only after predicting that the Tenth Circuit would reject the Ninth Circuit's holding on copyright issues. App. 13a. But if an identical case were to be filed in the Ninth Circuit involving both patent and copyright claims, a district court (and the Federal Circuit on appeal) would have to apply different interpretations of the Sherman Act and the misuse doctrine in the *same case*.

Finally, anyone seeking to understand the law in this important area must also attempt to determine whether an enforcement action could be brought by the Federal Trade Commission or the Department of Justice, which have parallel jurisdiction to enforce the Nation's antitrust laws. Those agencies have clearly stated that "for the purpose of antitrust analysis," intellectual property is "essentially comparable to any other form of property." *Antitrust Guidelines for the Licensing of Intellectual Property* [hereinafter "*Guidelines*"] § 2.0, 4 Trade Reg. Rep. (CCH) ¶ 13,132 at 20,734 (1995). Thus, it is the enforcement agencies' position that

> [a]n intellectual property owner's rights to exclude are similar to the rights enjoyed by owners of other forms of private property. As with other forms of private property, certain types of conduct with respect to intellectual property may have anticompetitive effects against which the antitrust laws can and do protect. *Intellectual property is thus neither particularly free from scrutiny under the antitrust laws, nor particularly suspect under them.* [*Id.* § 2.1 at 20,735 (emphasis added).]

Both the FTC and the Department of Justice have taken enforcement actions predicated on their view—contrary to that of the court below—that unilateral conduct involving patented or copyrighted items is *not* immunized from antitrust scrutiny.[7] And only recently, the Chairman of the FTC

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[7] *See* Agreement Containing Consent Order, *In re: Intel Corporation*, Docket No. 9288 (FTC March 17, 1999) (consent decree imposing obligations to license patented and copyrighted works in action alleging antitrust violation based on refusal to license such

strongly criticized the Federal Circuit's decision in this very case, calling it an "unwise and unfortunate departure from the traditional approach in this area [of the law]." Robert Pitofsky, *Challenges of the New Economy: Issues at the Intersection of Antitrust and Intellectual Property* 8 (June 15, 2000), <http://www.ftc.gov/speeches/pitofsky/000615speech.htm> [hereinafter "Pitofsky"].[8]

It is unlikely that a federal antitrust enforcement action would ever come within the jurisdiction of the Federal Circuit, because such an action almost certainly would not include patent infringement claims or counterclaims. Thus, even if a case brought by a private party would be subject to the law of the Federal Circuit, an action by the Federal

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property); Plaintiffs' Joint Reply to Microsoft's Proposed Conclusions of Law at 23, *United States* v. *Microsoft*, No. 98-1232 (D.D.C. filed Jan. 25, 2000) (DOJ statement that "[e]ven in the context of refusals to license, * * * intellectual property defenses to conduct that violates the antitrust laws have been rejected"). The district court has accepted DOJ's position in *Microsoft*. *See United States* v. *Microsoft Corp.*, 87 F. Supp. 2d 30, 40-41 (D.D.C. 2000) ("It is * * * well settled that a copyright holder is not by reason thereof entitled to employ the perquisites in ways that directly threaten competition.") (citing, *inter alia*, *Image Technical Services*, *Data General*, and *Kodak*); *United States* v. *Microsoft Corp.*, 1998 WL 614485, at *15, 1998-2 Trade Cas. ¶ 72,261 at 82,678 (D.D.C. 1998) ("[C]opyright law does not give Microsoft blanket authority to license (or refuse to license) its intellectual property as it sees fit. A copyright does not give its holder immunity from laws of general applicability, including the antitrust laws.").

[8] The Federal Circuit misconstrued the position of the Federal Government, incorrectly citing a section of the *Guidelines* as support for its position. *See* App. 6a-7a. The cited section merely states the uncontroversial point that "[i]f a patent or other form of intellectual property does confer market power, that market power does not *by itself* offend the antitrust laws" or impose licensing obligations. *Guidelines* § 2.2, at 20,735 (emphasis added). CSU urged the Federal Circuit, if it had any doubt that the Federal Government supported CSU's position, to invite the Government to submit a brief setting forth its views. *See* Reply Br. for Plaintiff-Appellant CSU, L.L.C. 12 n.5. The court did not do so.

Government challenging the same conduct would not be. Given the divergent positions of the Federal Circuit, on the one hand, and the Federal Government and the Ninth and First Circuits, on the other, it is now nearly impossible to know whether a monopolist's refusal to sell or license material containing intellectual property violates the Sherman Act and constitutes misuse, or is instead merely an exercise of the monopolist's absolute rights. This confusion in the law is intolerable and should be resolved by this Court.

II. THE DECISION BELOW CONFLICTS WITH THIS COURT'S DECISIONS

As shown above, certiorari is warranted in this case in light of the conflict among the circuits. But certiorari is also warranted because the decision below conflicts with *Kodak* and other precedents of this Court. *See* S. Ct. Rule 10(c).

In *Kodak*, the Court held that a policy that "limit[s] the availability of parts to ISOs and * * * make[s] it more difficult for ISOs to compete with Kodak in servicing Kodak equipment," 504 U.S. at 455, will violate both Section 1 and Section 2 of the Sherman Act if undertaken without a legitimate business justification. There can be no serious dispute that, absent the absolute intellectual property defense created by the Federal Circuit, Xerox's conduct would violate Section 2 of the Sherman Act as interpreted by this Court in *Kodak*. Just like Kodak, Xerox has obtained a monopoly over parts and related materials necessary for any entity to compete in the Xerox service market. *See* App. 24a ("Xerox does not contest that it has monopoly power in the relevant parts and service markets"); App. 68a (same). And just like Kodak, Xerox "took exclusionary action to maintain its parts monopoly and used its control over parts to strengthen its monopoly share of the [Xerox] service market." *Kodak*, 504 U.S. at 483. Indeed, the evidence of such a violation is even

clearer here, as Xerox has conceded that its Parts Policy was unrelated to intellectual property concerns. *See supra* at 6.[9]

Yet the Federal Circuit held Xerox absolutely immune from the antitrust laws as construed by this Court because some of the property which it refused to sell or license to ISOs included patented or copyrighted material. In *Kodak*, however, this Court expressly rejected this proposition. As noted by the *Kodak* majority, the dissenting Justices in that case took the position that because Kodak had an "inherent" monopoly in parts for its own equipment, "the antitrust laws do not apply to its efforts to expand that power into other markets." 504 U.S. at 479-480 n.29. The Court expressly rejected that view, holding that it had "no support * * * in our jurisprudence" because

> [t]he Court has held many times that power gained through some natural and legal advantage *such as a patent, copyright*, or business acumen can give rise to liability if "a seller exploits his dominant position in one market to expand his empire into the next." *Times Picayune Publishing Co.* v. *United States*, 345 U.S. 594, 611 (1953); *see, e.g., Northern Pacific R. Co.* v. *United States*, 356 U.S. 1 (1958); *United States* v. *Paramount Pictures, Inc.*, 334 U.S. 131 (1948); *Leitch Mfg. Co.* v. *Barber Co.*, 302 U.S. 458 (1938). [*Id.* (emphasis supplied).]

Thus, in rejecting the notion that a monopoly obtained through legitimate means confers immunity from antitrust liability for the conduct challenged in this case, the Court expressly confirmed that no such immunity exists even where

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[9] Moreover, there is evidence that Xerox, unlike Kodak, has a monopoly in the market for high volume copiers of *all* brands, in addition to a monopoly in the parts for its own machines. The evidence before the District Court showed that Xerox controlled 80-90% of the original equipment market for all high volume copiers (compared to approximately 10% for Kodak). Ct. App. J.A. 473.

such an inherent monopoly is gained through "a patent [or] copyright." *Id.*

The Federal Circuit held that this rather direct language was inapplicable because "*Kodak* was a tying case when it came before the Supreme Court, and no patents had been asserted in defense of the antitrust claims against Kodak." App. 8a. The court's main point is simply wrong—this Court in *Kodak* considered *both* a tying claim under Section 1 *and* an unlawful monopolization claim under Section 2. *See* 504 U.S. at 459. Moreover, as the Ninth Circuit has held, although the Court's discussion of patents and copyrights was located within its discussion of the tying claim,

> the § 2 discussion frequently refers back to the § 1 discussion, and the Court's statement that "exploit[ing] [a] dominant position in one market to expand [the] empire into the next" is broad enough to cover monopoly leveraging under § 2. By responding in this fashion, *the Court in* Kodak *supposed that intellectual property rights do not confer an absolute immunity from antitrust claims.* [*Image Technical Servs.*, 125 F.3d at 1216 (footnote omitted; emphasis supplied).]

Finally, regardless of whether Kodak specifically relied on its patents before this Court, the Court's rejection of the immunity argument was necessary to the outcome of that case, and therefore not dicta, because the *Kodak* majority was responding directly to an argument that Kodak's natural or inherent monopoly in its own parts shielded it from liability based on its refusal to deal.

More fundamentally, the Court in *Kodak*—and in the earlier cases which *Kodak* followed—rejected the formalistic distinction between a unilateral refusal to sell parts to ISOs in order to monopolize the service market and "agreements" with ISOs or other customers that prevent ISOs from using such parts. The Court found sufficient evidence of a Section 2 violation (which does not require concerted action) for

the same reasons it found sufficient evidence of a Section 1 violation (which does). *Compare* 504 U.S. at 461-479, *with id.* at 480-486. The same is true here. Xerox's conduct is in all material respects identical to Kodak's, and therefore violates Section 2 for the same reasons. Indeed, as noted above, *supra* note 9, Xerox's conduct is even more egregious given its monopoly over the market for equipment of all brands.

Moreover, *Kodak* simply followed longstanding precedent in reaching this conclusion. In its footnote addressing patents and copyrights, the Court cited *Leitch Manufacturing Co.* v. *Barber Co.*, 302 U.S. 458 (1938), a case involving purely *unilateral* conduct. In *Leitch*, the Court held that a company's unilateral conduct in penalizing those who used a patented process without buying unpatented materials from it was the "practical equivalent" of an illegitimate tie, and that the prohibition against extending the patent monopoly "applies *whatever the nature of the device* by which the owner of the patent seeks to effect such unauthorized extension of the monopoly." *Id.* at 460-461, 463 (emphasis supplied). *See also Northern Pacific*, 356 U.S. at 11 ("the vice of tying arrangements lies in the use of economic power in one market to restrict competition on the merits"); *Carbice Corp.* v. *American Patents Dev. Corp.*, 283 U.S. 27, 32 n.3 (1931) ("[t]he patent grant is inherently limited" by legal requirements requiring access to essential facilities).

The Federal Circuit's decision in this case conflicts with these decisions. By selling replacement parts only to end users—enforced through an on-site verification program—Xerox's policy allows use of its patented parts only on the condition that the licensee not use the parts to provide competing service. Any entity that cannot accept these conditions (*e.g.*, CSU) will not be able to use Xerox parts in conducting its business. Thus, Xerox has improperly attempted to use its lawful patent monopoly over its parts as leverage to monopolize the separate market for service—a market *not* covered by any patent. Contrary to the Federal

Circuit's holding, there is no legal or logical difference between this behavior and the clearly prohibited practice of "condition[ing] the right to use [a] patent on the licensee's agreement to purchase, use, or sell, or not to purchase, use, or sell, another article of commerce not within the scope of [the] patent monopoly." *Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U.S. 100, 136 (1969). As in *Kodak*, just as the antitrust laws prohibit Xerox from licensing its patented parts on the condition that the parts not be used to provide competing, unpatented service, so those same laws prohibit Xerox from refusing to sell parts to anyone who uses those parts to provide such service.

The Federal Circuit's attempts to explain its deviation from this Court's holdings cannot withstand scrutiny. The Federal Circuit dismissed the Ninth Circuit's understanding of this Court's precedents in large part because the Federal Circuit disagreed with the purportedly "subjective" analysis employed in *Image Technical Services*. Analogizing to claims that the mere *filing* of a lawsuit violates the antitrust laws, the court found "no more reason to inquire into the subjective motivation of Xerox in refusing to sell or license its patented works than we found in evaluating the subjective motivation of a patentee in bringing suit to enforce that same right." App. 10a. The cases relied on by the court, however, involve the *Noerr-Pennington* doctrine, which permits parties to engage in protected First Amendment activity (including filing lawsuits) without fear that those actions will themselves lead to antitrust liability. That doctrine extends only to the act of filing the lawsuit—conduct not at issue here—and does not immunize conduct not involving such First Amendment activity.[10] That First Amendment concerns protect certain

[10] *See Professional Real Estate Investors, Inc.* v. *Columbia Pictures Indus., Inc.*, 508 U.S. 49, 75 (1993) (Stevens & O'Connor, JJ., concurring) ("[O]bjectively reasonable lawsuits may still break the law. For example, a manufacturer's successful action enforcing resale price maintenance agreements, restrictive provisions in a license to use a patent or a trademark, or an equip-

limited behavior against antitrust liability is not grounds under this Court's precedents for creating a different, blanket immunity for any exercise of intellectual property rights.

The disdain expressed by the Federal Circuit for analyzing whether Xerox had a legitimate business justification for its refusal to deal is nothing but a disdain for this Court's precedents. If Xerox enjoyed a monopoly over its parts because it controlled the metal necessary to make them, a refusal to sell the parts would be subject to antitrust scrutiny, and the established inquiry would ask whether Xerox had "legitimate competitive reasons" for its actions.[11] Thus, following the precedents of this Court, the Ninth Circuit in *Image Technical Services* based its decision on *objective* considerations showing a lack of business justification. For example, the court found Kodak's proffered justification that it had withheld parts from ISOs to protect its intellectual property inconsistent with the objective fact that it withheld both patented *and* unpatented parts. *See* 125 F.3d at 1218-19. The lack of a legitimate justification is even more clear here, as Xerox has *admitted* that protection of intellectual property was *not* why it adopted its Parts Policy. *See supra* at 6.

The courts long ago rejected the notion that intellectual property rights override all other laws requiring access to monopoly resources. For example, more than 100 years ago

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ment lease, may evidence, or even constitute, violations of the antitrust laws.") (footnotes omitted); *MCI Communications Corp.* v. *AT&T*, 708 F.2d 1081, 1159 (7th Cir. 1982) ("The *Noerr-Pennington* doctrine is concerned solely with the right to attempt to influence government action."), *cert. denied*, 464 U.S. 891 (1983).

[11] *See, e.g.*, *Kodak*, 504 U.S. at 483 n.32 (right to refuse to deal "is not absolute; it exists only if there are legitimate competitive reasons for the refusal"); *Aspen Skiing Co.* v. *Aspen Highlands Skiing Corp.*, 472 U.S. 585, 601 (1985) ("[t]he high value that we have placed on the right to refuse to deal with other firms does not mean that the right is unqualified"); *Otter Tail Power Co.* v. *United States*, 410 U.S. 366 (1973); *Lorain Journal Co.* v. *United States*, 342 U.S. 143 (1951).

courts rejected the argument advanced by companies with monopolies over the nascent telephone industry that they had the absolute right under the patent laws to deny competitors in the telegraph market access to patented telephone systems. *See State ex rel. Postal Tel. Cable Co.* v. *Delaware & A. Tel. & Tel. Co.*, 47 F. 633 (C.C.D. Del. 1891), *aff'd*, 50 F. 677 (3d Cir. 1892); *Missouri ex rel. Baltimore & O. Tel. Co.* v. *Bell Tel. Co.*, 23 F. 539, 540 (C.C.E.D. Mo. 1885), *error dismissed*, 127 U.S. 780 (1888). As future Justice Brewer explained in one of those cases:

> I believe fully in the sacredness of property; but I think that all property stands upon an equal basis, whether that property consists of gold dollars in your pocket, real estate, or the ownership of a patent. There is no particular sanctity hovering over or attaching to the ownership of a patent. It is simply a property right, to be protected as such. Starting from that as a basis, while every property owner may determine for himself to what he will devote his property, yet the moment he puts that property into * * * the channels of commerce, that moment he subjects that property to the laws which control commercial transactions * * * . [*Missouri*, 23 F. at 540.]

The analysis is the same here. While patents and copyrights are important property rights deserving of full legal protection, they are for this purpose no more and no less important than other property rights, and should be treated no differently under the antitrust laws.[12]

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[12] Indeed, this Court has held that even the First Amendment right of a publisher to determine the content of a newspaper did not override the proscription against unilaterally refusing access to that newspaper in order to maintain a monopoly in violation of the Sherman Act. *See Lorain Journal*, 342 U.S. at 155-156; *Microsoft*, 87 F. Supp. 2d at 41 ("Even constitutional privileges confer no immunity when they are abused for anticompetitive purposes."). Intellectual property rights—while important—are certainly no more deserving of antitrust immunity than are First Amendment rights.

The Federal Circuit has held that Xerox is immune from antitrust liability expressly recognized by this Court in a case involving identical facts. Such a rejection of this Court's authority plainly warrants this Court's review.

III. THIS CASE INVOLVES A RECURRING QUESTION OF NATIONAL IMPORTANCE

The Federal Circuit has established an unprecedented immunity from the antitrust laws, holding that any refusal to license or sell material subject to a valid patent or copyright is absolutely immune from antitrust scrutiny. Under such a rule, a company with a monopoly in the market for an item critical to commerce may refuse to sell or license that item to competitors in a different market in order to monopolize that second market—a course of conduct this Court has squarely held violates the antitrust laws—merely because the primary monopoly happens to involve patented or copyrighted items rather than some other form of property. Thus, the Federal Circuit upheld such immunity in this case even though the evidence is undisputed that Xerox refused to sell parts and related materials (both patented and unpatented) with the express goal of capturing 100% of the service market. The Court should grant certiorari to review this holding, which involves a recurring issue of national importance.

The question whether the antitrust laws prohibit a monopolist from refusing to license or sell patented or copyrighted material in order to obtain monopoly in a secondary market has been a recurring one. As noted above, in addition to this case, the question has been squarely addressed by the Ninth Circuit. The question has also come before the Federal Circuit in another recent case, *Intergraph Corp.* v. *Intel Corp.*, 195 F.3d 1346 (Fed. Cir. 1999), and has been implicated in the FTC's parallel enforcement action against Intel, as well as the ongoing *Microsoft* litigation, *see supra* note

7.[13] Likewise, many commentators have recently noted that the intersection between antitrust and intellectual property law, specifically including in the context of refusals to deal, remains an unsettled area of the law.[14]

As the Ninth Circuit noted in *Image Technical Services*, "[a]t the border of intellectual property monopolies and antitrust markets lies a field of dissonance yet to be harmonized by statute or the Supreme Court." 125 F.3d at 1217. The Federal Circuit has now increased this dissonance to intolerable levels, making it impossible for businesses to understand the law.

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[13] The lower courts have also frequently addressed the related question of whether a patent owner, by refusing to license such property, unlawfully gained or maintained a monopoly in the primary market for the patented items. *See, e.g., SCM Corp.* v. *Xerox Corp.*, 645 F.2d 1195 (2d Cir. 1981), *cert. denied*, 455 U.S. 1016 (1982); *Miller Insituform, Inc.* v. *Insituform of North Am.*, 830 F.2d 606 (6th Cir. 1987), *cert. denied*, 484 U.S. 1064 (1988). Those cases are different from this case because there were no allegations that a patent holder used its legitimate patent monopoly to gain a secondary monopoly in a separate market. Nevertheless, they demonstrate the recurring nature of antitrust claims involving refusals to license intellectual property.

[14] *See, e.g.*, Loew, *supra* note 4, at 349 ("[W]hether antitrust concerns can ever remove core IP rights solely because their exercise causes excessive harm to competition, and under what circumstances, remains an unsettled question."); David McGowan, *Networks and Intention in Antitrust and Intellectual Property* [hereinafter "McGowan"], 24 J. Corp. L. 485, 486 (Spring 1999) ("much dissatisfaction remains" with lower courts' resolution of antitrust/intellectual property intersection); James C. Burling, William F. Lee & Anita K. Krug, *The Antitrust Duty to Deal and Intellectual Property Rights*, 24 J. Corp. L. 527, 552 (Spring 1999) ("there remain many questions to be resolved"); Ronald W. Davis, *The FTC's* Intel *Decision: What are the Limitations on "Throwing Your Weight Around" Using Intellectual Property Rights?*, 13 Antitrust 47, 52 (Summer 1999) (settlement of FTC's *Intel* case "leave[s] open for resolution * * * general questions of great potential interest" including "what really are the limits, if any, to a monopolist's right to refuse to let others use its intellectual property").

The Federal Circuit's absolute immunity rule will have widespread and serious consequences for the Nation's economy if left unreviewed. Our modern economy is increasingly reliant on monopoly "networks" and other critical technology which include patented items or copyrighted works. *See, e.g.*, McGowan, *supra* note 14; Pitofsky, *supra*, at 3. The immunity created by the Federal Circuit would permit the owner of such technology to refuse competitors in other markets access to a critical network—or threaten to do so—in order to monopolize those secondary markets. For example, a company with a monopoly over software that is critical to commerce could lawfully deny that software to any entity that competes with the company in a different market, or to others who do business with such competitors, simply because the software is copyrighted or patented. *Cf. Microsoft*, *supra*. The owner of intellectual property incorporated into a telecommunications network could deny competitors in other markets access to its monopoly network simply because some of the components of the network involve copyrighted or patented technology. *Cf. MCI*, 708 F.2d at 1131-53. And because virtually every product could have a copyrighted label, the decision below gives *carte blanche* for a monopolist to refuse to sell such products in order to gain other monopolies. *Cf. Quality King Distributors, Inc.* v. *L'anza Research Int'l Inc.*, 523 U.S. 135 (1998).

In the words of the Chairman of the FTC, the absolute immunity created by the Federal Circuit has upset the balance between antitrust and intellectual property law long ago struck by this and other courts "in a way that has disturbing implications for the future of antitrust in high technology industries." Pitofsky, *supra*, at 5. As he stated, the Federal Circuit's "sweeping language that exalts patent and copyrights over other considerations * * * throws into doubt the validity of previous lines of authority that attempted to strike a balance between intellectual property and antitrust." *Id.* at 6. As noted by the Chairman, the decision below upsets this

balance by potentially permitting, among other things, a monopolist's refusal to sell products incorporating patented elements except on condition that the purchaser not buy from a potential competitor, and the selective termination of patent licensees in retaliation for price-cutting activity. *Id.* at 7.

Indeed, there is already evidence that the decision below will have such detrimental effects. In *Townshend* v. *Rockwell Int'l Corp.*, 2000 U.S. Dist. LEXIS 5070, 2000-1 Trade Cas. (CCH) ¶ 72,890 (N.D. Cal. Mar. 28, 2000), the court dismissed a claim that a patent holder with a monopoly over computer modem technology violated the Sherman Act by, among other things, refusing to license that technology except on the condition that the licensee cross-license other technology. Relying on the Federal Circuit's decision in this case, the court held that

> [g]iven that a patent holder is permitted under the antitrust laws to completely exclude others from practicing his or her technology, the Court finds that [the patent holder's] submission of proposed licensing terms with which it was willing to license does not state a violation of the antitrust laws. [*Id.* at *23.]

The *Townshend* decision demonstrates the far-reaching impact of the Federal Circuit's ruling in this case. Virtually any agreement that would otherwise be prohibited under this Court's precedents forbidding unlawful tying can be recast as an exercise of the "unilateral" refusal to license. For example, an illegal agreement by a monopolist conditioning a patent license on the purchase of unpatented items, *see, e.g.*, *Zenith*, 395 U.S. at 135, can always be recast as a "unilateral" refusal to deal with those who will not make the demanded purchase. By ignoring the Court's statement in *Kodak* that patents and copyrights do not immunize the conduct at issue here, 504 U.S. at 479-480 n.29, as well as the Court's holding that the prohibition against expanding the patent monopoly "applies whatever the nature of the device by which the owner of the patent seeks to effect such unauthorized exten-

sion of the monopoly," *Leitch*, 302 U.S. at 463, the Federal Circuit has opened a gaping loophole in the enforcement of the Nation's antitrust laws.

The Federal Circuit has exempted the actions of patent and copyright holders from the antitrust scrutiny that is applied to all other property owners. Like the owner of any other property, the owner of intellectual property will ordinarily be able to decide freely how to use its property, because where there are legitimate business reasons to do so, even monopolists may refuse to deal with others. The decision below, however, disregards this Court's precedents balancing antitrust law and property rights, and instead accords absolute immunity to any unilateral refusal to deal that happens to involve valid intellectual property rights. Such an unprecedented immunity from antitrust scrutiny in this important area of the law clearly warrants this Court's review.

CONCLUSION

For the foregoing reasons, the petition should be granted and the judgment below reversed.

Respectfully submitted,

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APPENDICES

APPENDIX A

United States Court of Appeals for the Federal Circuit

99-1323

IN RE INDEPENDENT SERVICE ORGANIZATIONS ANTITRUST LITIGATION

CSU, L.L.C., (previously CSU HOLDINGS INC., COPIER SERVICES UNLIMITED, INC., and COPIER SERVICE UNLIMITED OF ST. LOUIS, INC.),

Plaintiff-Appellant,

and

CREATIVE COPIER SERVICES,

Plaintiff,

and

ACQUISITION SPECIALISTS, INC., TECSPEC, INC., CONSOLIDATED PHOTO COPY, INC., COPIER REBUILD CENTER, INC., CPO, LTD., GRADWELL COMPANY, INC., GRAPHIC CORPORATION OF ALABAMA, INTERNATIONAL BUSINESS EQUIPMENT, INC., LASER RESOURCES INC., LASER RESOURCES OF MINNESOTA, INC., LASER SOLUTIONS, INC., LASER SUPPORT AND ENGINEERING, INC., MARATHON COPIER SERVICE, INC., NATIONWIDE TECHNOLOGIES, INC., REPROGRAPHICS RESOURCES SYSTEMS, INC., SUNTONE INDUSTRIES, INC., TECHNICAL DUPLICATION SERVICES, INC., X-TECH SYSTEMS INC., XER-DOX INC., and XEROGRAPHIC COPIES SERVICES, INC.,

Plaintiffs,

v.

XEROX CORPORATION,

Defendant-Appellee.

John G. Roberts, Jr., Hogan & Hartson, L.L.P., of Washington, DC argued for plaintiff appellant. With him on the brief were *David G. Leitch* and *Jonathan S. Franklin*. Of counsel on the brief were *P. John Owen* and *A. Bradley Bodamer*, Morrison & Hecker L.L.P., of Kansas City, Missouri.

Peter K. Bleakley, Arnold & Porter, of Washington, DC, argued for defendant-appellee. With him on the brief were *Jonathan I. Gleklen* and *Christopher F. Winters*. Of counsel on the brief were *C. Larry O'Rourke*, Finnegan, Henderson, Farabow, Garrett & Dunner, L.L.P., of Palo Alto, California, and *Peter W. Marshall*, Xerox Corporation, of Stamford, Connecticut.

Robert J. LaRocca, Ryan, Brown, McDonnell, Berger, Gibbons & LaRocca, of Philadelphia, Pennsylvania, for amicus curiae Creative Copier Services.

Carter G. Phillips, Sidley & Austin, of Washington, DC, for amicus curiae Intellectual Property Owners Association. Of counsel on the brief was *Joseph S. Miller*.

Richard H. Stern, Ablondi Foster, of Washington, DC, for amicus curiae American Intellectual Property Law Association.

David F. Ryan, Fitzpatrick, Cella, Harper & Scinto, of New York, New York, for amicus curiae New York Intellectual Property Law Association. Of counsel on the brief were *Bruce M. Wexler*, Fitzpatrick Cella, Harper & Scinto, and Herbert F. Schwartz, Fish & Neave, of New York, New York.

Mark A. Perry, Gibson, Dunn & Crutcher LLP, of Washington, DC, for amicus curiae Information Technology Industry Council. Of counsel on the brief was *Joseph Kattan*.

Appealed from: U.S. District Court for the District of Kansas

Judge Kathryn H. Vratil

DECIDED: February 17, 2000

Before MAYER, Chief Judge, ARCHER, Senior Circuit Judge, and PLAGER, Circuit Judge.

MAYER, Chief Judge.

CSU, L.L.C. appeals the judgment of the United States District Court for the District of Kansas, dismissing on summary judgment CSU's claims that Xerox's refusal to sell patented parts and copyrighted manuals and to license copyrighted software violate the antitrust laws. *See CSU, L.L.C. v. Xerox Corp.*, Civ. Action No. MDL-1021 (D. Kan. Jan. 3, 1999) (final judgment order). Because we agree with the district court that CSU has not raised a genuine issue as to any material fact and that Xerox is entitled to judgment as a matter of law, we affirm.

Background

Xerox manufactures, sells, and services high-volume copiers. Beginning in 1984, it established a policy of not selling parts unique to its series 10 copiers to independent service organizations ("ISOs"), including CSU, unless they were also end-users of the copiers. In 1987, the policy was expanded to include all new products as well as existing series 9 copiers. Enforcement of this policy was tightened in 1989, and Xerox cut off CSU's direct purchase of restricted parts. Xerox also implemented an "on-site end-user verification" procedure to confirm that the parts ordered by certain ISOs or their customers were actually for their end-user use. Initially this procedure applied to only the six most successful ISOs, which included CSU.

To maintain its existing business of servicing Xerox equipment, CSU used parts cannibalized from used Xerox

equipment, parts obtained from other ISOs, and parts purchased through a limited number of its customers. For approximately one year, CSU also obtained parts from Rank Xerox, a majority-owned European affiliate of Xerox, until Xerox forced Rank Xerox to stop selling parts to CSU and other ISOs. In 1994, Xerox settled an antitrust lawsuit with a class of ISOs by which it agreed to suspend its restrictive parts policy for six and one-half years and to license its diagnostic software for four and one-half years. CSU opted out of that settlement and filed this suit alleging that Xerox violated the Sherman Act by setting the prices on its patented parts much higher for ISOs than for end-users to force ISOs to raise their prices. This would eliminate ISOs in general and CSU in particular as competitors in the relevant service markets for high speed copiers and printers.

Xerox counterclaimed for patent and copyright infringement and contested CSU's antitrust claims as relying on injury solely caused by Xerox's lawful refusal to sell or license patented parts and copyrighted software. Xerox also claimed that CSU could not assert a patent or copyright misuse defense to Xerox's infringement counterclaims based on Xerox's refusal to deal.

The district court granted summary judgment to Xerox dismissing CSU's antitrust claims and holding that if a patent or copyright is lawfully acquired, the patent or copyright holder's unilateral refusal to sell or license its patented invention or copyrighted expression is not unlawful exclusionary conduct under the antitrust laws, even if the refusal to deal impacts competition in more than one market. The court also held, in both the patent and copyright contexts, that the right holder's intent in refusing to deal and any other alleged exclusionary acts committed by the right holder are irrelevant to antitrust law. This appeal followed.

Discussion

The issue is whether the district court erred in granting Xerox's motion for summary judgment on CSU's antitrust claims. We review a grant of summary judgment de novo. *See Petrolite Corp. v. Baker Hughes Inc.*, 96 F.3d 1423, 1425, 40 USPQ2d 1201, 1203 (Fed. Cir. 1996) (citing *Meyers v. Asics Corp.*, 974 F.2d 1304, 1306, 24 USPQ2d 1036, 1037 (Fed. Cir. 1992)). Summary judgment is appropriate when there is no genuine issue as to any material fact and the moving party is entitled to judgment as a matter of law. *See id.* (citing *Transmatic, Inc. v. Gulton Indus., Inc.*, 53 F.3d 1270, 1274, 35 USPQ2d 1035, 1038 (Fed. Cir. 1995)).

As a general proposition, when reviewing a district court's judgment involving federal antitrust law, we are guided by the law of the regional circuit in which that district court sits, in this case the Tenth Circuit. *See Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1068, 46 USPQ2d 1097, 1104 (Fed. Cir. 1998). We apply our own law, not regional circuit law, to resolve issues that clearly involve our exclusive jurisdiction. *See Pro-Mold & Tool Co. v. Great Lakes Plastics, Inc.*, 75 F.3d 1568, 1574-75, 37 USPQ2d 1626, 1631 (Fed. Cir. 1996). "Whether conduct in procuring or enforcing a patent is sufficient to strip a patentee of its immunity from the antitrust laws is to be decided as a question of Federal Circuit law." *Nobelpharma*, 141 F.3d at 1068, 46 USPQ2d at 1104; *see Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356, 1360, 50 USPQ2d 1672, 1676 (Fed. Cir. 1999) (en banc in relevant part) ("*Pro-Mold* and *Nobelpharma* make clear that our responsibility as the tribunal having sole appellate responsibility for the development of patent law requires that we do more than simply apply our law to questions of substantive patent law. In order to fulfill our obligation of promoting uniformity in the field of patent law, it is equally important to apply our construction of patent law to the questions whether and to what

extent patent law preempts or conflicts with other causes of action."). The district court's grant of summary judgment as to CSU's antitrust claims arising from Xerox's refusal to sell its patented parts is therefore reviewed as a matter of Federal Circuit law, while consideration of the antitrust claim based on Xerox's refusal to sell or license its copyrighted manuals and software is under Tenth Circuit law.

A.

Intellectual property rights do not confer a privilege to violate the antitrust laws. *See Intergraph Corp. v. Intel Corp.*, 195 F.3d 1346, 1362, 52 USPQ2d 1641, 1652 (Fed. Cir. 1999). "But it is also correct that the antitrust laws do not negate the patentee's right to exclude others from patent property." *Id.* (citation omitted). "The commercial advantage gained by new technology and its statutory protection by patent do not convert the possessor thereof into a prohibited monopolist." *Abbott Lab. v. Brennan*, 952 F.2d 1346, 1354, 21 USPQ2d 1192, 1199 (Fed. Cir. 1991). "The patent right must be 'coupled with violations of § 2', and the elements of violation of 15 U.S.C. § 2 must be met."[1] *Id.* (citations omitted). "Determination of whether the patentee meets the Sherman Act elements of monopolization or attempt to monopolize is governed by the rules of application of the antitrust laws to market participants, with due consideration to the exclusivity that inheres in the patent grant." *Id.* at 1354-55, 21 USPQ2d at 1199 (citations omitted).

A patent alone does not demonstrate market power. *See id.* at 1355, 21 USPQ2d at 1199. The United States Department of Justice and Federal Trade Commission have issued

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[1] Section 2 of the Sherman Act, 15 U.S.C. § 2, prohibits monopolization or attempts to monopolize: "Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a felony. . . ."

guidance that, even where it exists, such "market power does not 'impose on the intellectual property owner an obligation to license the use of that property to others.' " *Intergraph*, 195 F.3d at 1362, 52 USPQ2d at 1652 (citing United States Department of Justice and Federal Trade Comm'n Antitrust Guidelines for the Licensing of Intellectual Property 4 (1995)). There is "no reported case in which a court ha[s] imposed antitrust liability for a unilateral refusal to sell or license a patent . . . ." *Id.* (citing *Image Technical Servs. v. Eastman Kodak Co.*, 125 F.3d 1195, 1216, 44 USPQ2d 1065, 1079 (9th Cir. 1996)). The patentee's right to exclude is further supported by section 271(d) of the Patent Act which states, in pertinent part, that "[n]o patent owner otherwise entitled to relief . . . shall be denied relief or deemed guilty of misuse or *illegal extension of the patent right* by reason of his having . . . (4) refused to license or use any rights to the patent . . ." 35 U.S.C. § 271(d) (1999) (emphasis added).

The patentee's right to exclude, however, is not without limit. As we recently observed in *Glass Equipment Development Inc. v. Besten, Inc.*, a patent owner who brings suit to enforce the statutory right to exclude others from making, using, or selling the claimed invention is exempt from the antitrust laws, even though such a suit may have an anticompetitive effect, unless the infringement defendant proves one of two conditions. 174 F.3d 1337, 1343, 50 USPQ2d 1300, 1304 (Fed. Cir. 1999) (citing *Nobelpharma*, 141 F.3d at 1068, 46 USPQ2d at 1104). First, he may prove that the asserted patent was obtained through knowing and willful fraud within the meaning of *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*, 382 U.S. 172, 177, 86 S. Ct. 347 (1965). *See Glass Equip. Dev.*, 174 F.3d at 1343. Or he may demonstrate that the infringement suit was a mere sham to cover what is actually no more than an attempt to interfere directly with the business relationships of a competitor. *See id.* (citing *Eastern R.R. Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127, 144, 81 S. Ct. 523

(1961)). Here, CSU makes no claim that Xerox obtained its patents through fraud in the Patent and Trademark Office; the *Walker Process* analysis is not implicated.

"[I]rrespective of the patent applicant's conduct before the [Patent and Trademark Office], an antitrust claim can also be based on [an] allegation that a suit is baseless; in order to prove that a suit was within *Noerr*'s 'sham' exception to immunity, [see *Noerr*, 365 U.S. at 144, 81 S. Ct. 523], an antitrust plaintiff must prove that the suit was both *objectively* baseless and *subjectively* motivated by a desire to impose collateral, anti-competitive injury rather than to obtain a justifiable legal remedy." *Nobelpharma*, 141 F.3d at 1071, 46 USPQ2d at 1107 (citing *Professional Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 60-61, 26 USPQ2d 1641, 1646 (1993)). "Accordingly, if a suit is not objectively baseless, an antitrust defendant's subjective motivation is immaterial." *Id.* at 1072, 46 USPQ2d at 1107. CSU has alleged that Xerox misused its patents but has not claimed that Xerox's patent infringement counterclaims were shams.

To support its argument that Xerox illegally sought to leverage its presumably legitimate dominance in the equipment and parts market into dominance in the service market, CSU relies on a footnote in *Eastman Kodak Co. v. Image Technical Services, Inc.*, 504 U.S. 451, 480 n.29, 112 S. Ct. 2072, 2089 n.29 (1992), that "[t]he Court has held many times that power gained through some natural and legal advantage such as a patent, . . . can give rise to liability if 'a seller exploits his dominant position in one market to expand his empire into the next.' " Notably, *Kodak* was a tying case when it came before the Supreme Court, and no patents had been asserted in defense of the antitrust claims against Kodak. Conversely, there are no claims in this case of illegally tying the sale of Xerox's patented parts to unpatented products. Therefore, the issue was not resolved by the *Kodak* language cited by CSU. Properly viewed within the

framework of a tying case, the footnote can be interpreted as restating the undisputed premise that the patent holder cannot use his statutory right to refuse to sell patented parts to gain a monopoly in a market *beyond the scope of the patent*. *See, e.g., Atari Games Corp. v. Nintendo of Am., Inc.*, 897 F.2d 1572, 1576, 14 USPQ2d 1034, 1037 (Fed. Cir. 1990) ("[A] patent owner may not take the property right granted by a patent and use it to extend his power in the marketplace improperly, i.e. beyond the limits of what Congress intended to give in the patent laws.").

The cited language from *Kodak* does nothing to limit the right of the patentee to refuse to sell or license in markets within the scope of the statutory patent grant. In fact, we have expressly held that, absent exceptional circumstances, a patent may confer the right to exclude competition altogether in more than one antitrust market. *See B. Braun Med., Inc. v. Abbott Lab.*, 124 F.3d 1419, 1427 n.4, 43 USPQ2d 1896, 1902 n.4 (Fed. Cir. 1997) (patentee had right to exclude competition in both the market for patented valves and the market for extension sets incorporating patented valves).

CSU further relies on the Ninth Circuit's holding on remand in *Image Technical Services* that " 'while exclusionary conduct can include a monopolist's unilateral refusal to license a [patent] or to sell its patented . . . work, a monopolist's 'desire to exclude others from its [protected] work is a presumptively valid business justification for any immediate harm to consumers.' " 125 F.3d at 1218, 44 USPQ2d at 1081 (citing *Data General Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1187, 32 USPQ2d 1385, 1417 (1st Cir. 1994)). By that case, the Ninth Circuit adopted a rebuttable presumption that the exercise of the statutory right to exclude provides a valid business justification for consumer harm, but then excused as harmless the district court's error in failing to give any instruction on the effect of intellectual property rights on the application of the antitrust laws. *See id.* at 1219-20, 44 USPQ2d at 1081. It concluded that the jury

must have rejected the presumptively valid business justification as pretextual. *See id.* This logic requires an evaluation of the patentee's subjective motivation for refusing to sell or license its patented products for pretext. We decline to follow *Image Technical Services*.

We have held that "if a [patent infringement] suit is not objectively baseless, an antitrust defendant's subjective motivation is immaterial." *Nobelpharma*, 141 F.3d at 1072, 46 USPQ2d at 1107. We see no more reason to inquire into the subjective motivation of Xerox in refusing to sell or license its patented works than we found in evaluating the subjective motivation of a patentee in bringing suit to enforce that same right. In the absence of any indication of illegal tying, fraud in the Patent and Trademark Office, or sham litigation, the patent holder may enforce the statutory right to exclude others from making, using, or selling the claimed invention free from liability under the antitrust laws. We therefore will not inquire into his subjective motivation for exerting his statutory rights, even though his refusal to sell or license his patented invention may have an anticompetitive effect, so long as that anticompetitive effect is not illegally extended beyond the statutory patent grant. *See Glass Equip. Dev.*, 174 F.3d at 1343, 50 USPQ2d at 1304. It is the infringement defendant and not the patentee that bears the burden to show that one of these exceptional situations exists and, in the absence of such proof, we will not inquire into the patentee's motivations for asserting his statutory right to exclude. Even in cases where the infringement defendant has met this burden, which CSU has not, he must then also prove the elements of the Sherman Act violation.

We answer the threshold question of whether Xerox's refusal to sell its patented parts exceeds the scope of the patent grant in the negative.[2] Therefore, our inquiry is at an

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[2] Having concluded that Xerox's actions fell within the statutory patent grant, we need not separately consider CSU's allegations of patent misuse and they are rejected.

end. Xerox was under no obligation to sell or license its patented parts and did not violate the antitrust laws by refusing to do so.

B.

The Copyright Act expressly grants a copyright owner the exclusive right to distribute the protected work by "transfer of ownership, or by rental, lease, or lending." 17 U.S.C. § 106(3) (1996). "[T]he owner of the copyright, if [it] pleases, may refrain from vending or licensing and content [itself] with simply exercising the right to exclude others from using [its] property." *Data General*, 36 F.3d at 1186, 32 USPQ2d at 1416 (citing *Fox Film Corp. v. Doyal*, 286 U.S. 123, 127, 52 S. Ct. 546, 547 (1932)).

The Supreme Court has made clear that the property right granted by copyright law cannot be used with impunity to extend power in the marketplace beyond what Congress intended. *See United States v. Loew's, Inc.*, 371 U.S. 38, 47-48, 83 S. Ct. 97, 103-04 (1962) (block booking of copyrighted motion pictures is illegal tying in violation of Sherman Act). The Court has not, however, directly addressed the antitrust implications of a unilateral refusal to sell or license copyrighted expression.

The Tenth Circuit has not addressed in any published opinion the extent to which the unilateral refusal to sell or license copyrighted expression can form the basis of a violation of the Sherman Act. We are therefore left to determine how that circuit would likely resolve the issue; the precedent of other circuits is instructive in that consideration. The Fourth Circuit has rejected a claim of illegal tying, supported only by evidence of a unilateral decision to license copyrighted diagnostic software to some but not to others. *See Service & Training, Inc. v. Data General Corp.*, 963 F.2d 680, 686, 23 USPQ2d 1102, 1106 (4th Cir. 1992). In reaching this conclusion, the court recognized the copyright owner's exclusive right to "sell, rent, lease, lend, or other-

wise distribute copies of a copyrighted work," *id.* (citing 17 U.S.C. § 106(3)), and concluded that "Section 1 of the Sherman Act does not entitle 'a purchaser . . . to buy a product that the seller does not wish to offer for sale.' " *Id.* (citing *Jefferson Parish Hosp. Dist. v. Hyde*, 466 U.S. 2, 24 n.40, 104 S. Ct. 1551 (1984)).

Perhaps the most extensive analysis of the effect of a unilateral refusal to license copyrighted expression was conducted by the First Circuit in *Data General Corp. v. Gruman Systems Support Corp.*, 36 F.3d 1147, 32 USPQ2d 1385. There, the court noted that the limited copyright monopoly is based on Congress' empirical assumption that the right to "exclude others from using their works creates a system of incentives that promotes consumer welfare in the long term by encouraging investment in the creation of desirable artistic and functional works of expression. . . . We cannot require antitrust defendants to prove and reprove the merits of this legislative assumption in every case where a refusal to license a copyrighted work comes under attack." *Id.* at 1186-87, 32 USPQ2d at 1416. The court went on to establish as a legal standard that "while exclusionary conduct can include a monopolist's unilateral refusal to license a copyright, an author's desire to exclude others from use of its copyrighted work is a presumptively valid business justification for any immediate harm to consumers." *See id.* at 1187, 32 USPQ2d at 1417. The burden to overcome this presumption was firmly placed on the antitrust plaintiff. The court gave no weight to evidence showing knowledge that developing a proprietary position would help to maintain a monopoly in the service market in the face of contrary evidence of the defendant's desire to develop state-of-the-art diagnostic software to enhance its service and consumer benefit. *See id.* at 1188-89, 32 USPQ2d at 1418.

As discussed above, the Ninth Circuit adopted a modified version of this *Data General* standard. Both courts agreed that the presumption could be rebutted by evidence that "the

monopolist acquired the protection of the intellectual property laws in an unlawful manner." *Image Technical Servs.*, 125 F.3d at 1219, 44 USPQ2d at 1082 (citing *Data General*, 36 F.3d at 1188, 32 USPQ2d at 1418). The Ninth Circuit, however, extended the possible means of rebutting the presumption to include evidence that the defense and exploitation of the copyright grant was merely a pretextual business justification to mask anticompetitive conduct. *See id.* The hazards of this approach are evident in both the path taken and the outcome reached. The jury in that case was instructed to examine each proffered business justification for pretext, and no weight was given to the intellectual property rights in the instructions. *See id.* at 1218, 1220 n.12, 44 USPQ2d at 1082 n.12. This permitted the jury to second guess the subjective motivation of the copyright holder in asserting its statutory rights to exclude under the copyright laws without properly weighing the presumption of legitimacy in asserting its rights under the copyright laws. While concluding that the failure to weigh the intellectual property rights was an abuse of discretion, the Ninth Circuit nevertheless held the error harmless because it thought the jury must have rejected the presumptive validity of asserting the copyrights as pretextual. *See id.* at 1219-20, 44 USPQ2d at 1081-82. This is in reality a significant departure from the First Circuit's central premise that rebutting the presumption would be an uphill battle and would only be appropriate in those rare cases in which imposing antitrust liability is unlikely to frustrate the objectives of the Copyright Act. *See Data General*, 36 F.3d at 1187 n.64, 1188, 32 USPQ2d at 1417 n.64.

We believe the First Circuit's approach is more consistent with both the antitrust and the copyright laws and is the standard that would most likely be followed by the Tenth Circuit in considering the effect of Xerox's unilateral right to refuse to license or sell copyrighted manuals and diagnostic software on liability under the antitrust laws. We therefore

reject CSU's invitation to examine Xerox's subjective motivation in asserting its right to exclude under the copyright laws for pretext, in the absence of any evidence that the copyrights were obtained by unlawful means or were used to gain monopoly power beyond the statutory copyright granted by Congress. In the absence of such definitive rebuttal evidence, Xerox's refusal to sell or license its copyrighted works was squarely within the rights granted by Congress to the copyright holder and did not constitute a violation of the antitrust laws.

Conclusion

Accordingly, the judgment of the United States District Court for the District of Kansas is affirmed.

AFFIRMED

APPENDIX B

UNITED STATES DISTRICT COURT
DISTRICT OF KANSAS

IN RE: INDEPENDENT SERVICE ORGANIZATIONS ANTITRUST LITIGATION	Docket No. MDL-1021
This Document Applies to: CSU, L.L.C. v. Xerox Corp. No. 94-2102-EEO	

ORDER

UPON CONSIDERATION of the pending motions of Xerox Corporation ("Xerox") for summary judgment and any timely opposition thereto, and of the stipulations filed by Xerox and CSU, L.L.C. ("CSU"), it is hereby ORDERED, ADJUDGED, AND DECREED AS FOLLOWS:

1) Pursuant to the stipulation of the parties and Fed. R. Civ. P. 41(a), Xerox's claims relating to CSU's infringement of Xerox's copyrights in its manuals (Count V), Xerox's claim for damages (though not for injunctive relief) based on CSU's infringement of Xerox's copyrights in diagnostic software for the 4050/4090/4650 Family of printers (Count II), and Xerox's state law claims for misappropriation of trade secrets and tortious conversion (Counts IV and X) are hereby DISMISSED WITH PREJUDICE.

2) Pursuant to the stipulation of the parties and Fed. R. Civ. P. 41(a), CSU's antitrust claims based on disparagement, pricing incentives to end users, Xerox's sold equipment policy, and Xerox's inspection and restoration policy, are hereby DISMISSES WITH PREJUDICE. CSU preserves for appeal only its claims that Xerox unlawfully refused to sell critical parts (including patented parts), to sell manuals and to license patented and copyrighted software, and its claim that the refusals to deal by Xerox

violated the antirust laws under the "lawful/unlawful acts" doctrine.

3) The Court has previously rejected CSU's claims under the antitrust laws that Xerox's refusal to sell patented parts and copyrighted manuals and refusal to license copyrighted software violates the antitrust laws. *In re Independent Service Organizations Antitrust Litig.*, 989 F. Supp. 1131, 1142-44 (D. Kan. 1997). CSU concedes that it cannot prove antitrust injury premised on Xerox's refusal to sell unpatented parts because its damages are based on an alleged inability to expand due to the unavailability of critical parts, including patented parts, copyrighted manuals, and patented and copyrighted diagnostic software. Accordingly, Xerox's motion for summary judgment on CSU's claims brought under the federal antitrust laws is GRANTED. Pursuant to Fed. R. Civ. P. 56, those claims are hereby DISMISSED WITH PREJUDICE.

4) Pursuant to the stipulation of the parties and Fed. R. Civ. P. 41(a), CSU's affirmative defenses of estoppel, laches, statue of limitations, and authorization with respect to Xerox's copyright infringement claims are hereby DISMISSED WITH PREJUDICE. CSU preserves for appeal only its affirmative defense of copyright misuse.

5) This Court has previously rejected CSU's misuse defense, its only remaining defense to Xerox's copyright infringement counterclaims. *In re Independent Service Organizations Antitrust Litig.*, 989 F. Supp. 1131, 1144 (D. Kan. 1997). Accordingly, Xerox's motions for summary judgment on its claims relating to CSU's infringement of Xerox's registered copyrights in its diagnostic software for the Model 5090 Family of copiers and the Model 4050/4090/4650 Family of printers is GRANTED.

   a) Judgment is entered in favor or Xerox and against CSU on Xerox's copyright infringement counterclaim

relating to the Model 5090 Family of copiers in the amount of $1,039,282.

b) An award of Xerox's attorneys' fees and costs is deferred until after resolution of Xerox's claims for damages from CSU's patent infringement following appeal of the Court's liability rulings. This judgment with regard to Xerox's copyright infringement claims is nonetheless final and appealable. *Bundinich v. Becton Dickinson & Co.*, 486 U.S. 196, 202 (1988) (judgment is final and appealable notwithstanding pendency of motion for attorneys' fees)

6) Xerox's motion for partial summary judgment on its claims relating to CSU's infringement of Xerox's patents in its Model 5090 Family diagnostic software is GRANTED. Pursuant to Fed. R. Civ. P. 56(d), the Court finds that:

a) Xerox has lawful and valid patents for this software registered as U.S. Patent No. 5,010,551 and U.S. Patent No. 5,023,817.

b) CSU has infringed Xerox's patents through unlicensed use of the diagnostic software for the Xerox Model 5090 Copier.

c) Genuine issues of material fact remain regarding the willfulness of CSU's infringement and Xerox's damages from such infringement, if any. Pursuant to 28 U.S.C. 1292(c)(2), these factual issues may be resolved at a trial on the merits after CSU's appeal of this judgment.

7) The Court previously entered partial summary judgment in favor of Xerox on Xerox's claims that CSU has infringed Xerox's patents in various parts used with Xerox's copiers and printers. *See In re Independent Service Organizations Antitrust Litig.*, 964 F. Supp. 1454, 1458 (D. Kan. 1997). The Court rejected CSU's affirmative defenses of laches, estoppel, and misuse in *In re In-*

dependent Service Organizations Antitrust Litig., 964 F. Supp. 1479 (D. Kan. 1997). Although genuine issues of material fact remain regarding the willfulness of CSU's infringement of these patents and Xerox's damages from such infringement, if any, these factual issues may be resolved at a trial on the merits after CSU's appeal of this judgment. *See* 28 U.S.C. 1292(c)(2).

8) A permanent injunction barring future acts of infringement by CSU of Xerox's registered copyrights is appropriate. Accordingly, CSU and its officers, agents, servants, employees, and any other person in active concert or participation with them, who receive actual notice of this order by personal service or otherwise, are hereby immediately and permanently restrained and enjoined from:

   a) reproducing Xerox manuals absent authorization or a license from Xerox to do so; and

   b) reproducing Xerox's diagnostic software for the Xerox Model 5090 Family of copiers or the Model 4050/4090/4650 Family of printers by copying such software to the hard disk of such copiers or printers in the absence of a license from Xerox to do so; and

   c) reproducing disks or tapes containing Xerox's diagnostic software for the Xerox Model 5090 Family of copiers or the Model 4050/4090/4650 Family of printers in the absence of a license from Xerox to do so; and

   d) using (reproducing to RAM) diagnostic software for the Xerox Model 5090 Family of copiers or the Model 4050/4090/4650 Family of printers which is resident on the hard disks of such copiers without a license from Xerox to do so.

   e) Notwithstanding the foregoing, nothing in this Order shall be deemed to prohibit:

i) CSU from reloading software on a Model 4050/4090/4650 family laser printer utilizing the disks or tapes containing software which were provided by Xerox with such a printer; or

ii) reproducing disks or tapes solely for archival purposes as authorized by 17 U.S.C. § 117 or by a Xerox software license; or

iii) unlicensed use of diagnostic software on a Model 4050/4090/4650 family laser printer sold by Xerox under terms and conditions which do not require such a license, including Model 4050/4090/4650 family printers sold by Xerox prior to January 1, 1994.

9) All antitrust claims and all copyright infringement claims in this matter have been resolved. As discussed above, the Court's liability judgment on the patent infringement claims, including the Court's rejection of CSU's defense of patent misuse, is immediately appealable as of right pursuant to 28 U.S.C. § 1292(c)(2). Because of the substantial overlap in the legal issues involved in CSU's antitrust claims and CSU's misuse defense to Xerox's patent and copyright counterclaims, the interests of justice are served by permitting a consolidated appeal of these issues. Pursuant to Fed. R. Civ. P. 54(b), the Court finds that there is no just reason for delay of the appeal of the antitrust and copyright claims until entry of final judgment on the patent claims. The clerk shall therefore enter final judgment against CSU in conformity with this Order on its antitrust claims and in favor of Xerox on Xerox's copyright infringement counterclaims.

IT IS SO ORDERED.

/s/
Kathryn H. Vratil
United States District Court Judge

APPROVED:

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APPENDIX C

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF KANSAS

IN RE: INDEPENDENT SERVICE ORGANIZATIONS ANTITRUST LITIGATION	)	CIVIL ACTION
This Document Applies To:	)	No. MDL-1021
CSU, L.L.C. v. Xerox Corp. (D. Kan. No. 94-2102-EEO)	)	

MEMORANDUM AND ORDER

This matter is before the court on the motion of CSU, L.L.C. ("CSU") for reconsideration of the court's April 8 and July 17, 1997 Orders (Doc. # 664) and the motion of Xerox Corporation ("Xerox") for reconsideration of the court's March 19 and 21, 1997 Orders (Doc. # 666). Both parties' motions concern the legal issue of whether Xerox's unilateral refusal to license or sell its patented and copyrighted products may constitute a misuse defense to an infringement claim or unlawful exclusionary conduct under the antitrust laws.

The court originally held that Xerox's refusal to deal could constitute misuse and exclusionary conduct. *See* Mar. 19 Mem. & Order at 7-16, 22; Mar. 21 Mem. & Order at 18-19. Xerox requested and the court granted reconsideration of this ruling with respect to Xerox's patented products. On reconsideration, the court held that Xerox's unilateral refusal to sell or license its patented products cannot constitute patent misuse or unlawful exclusionary conduct under the antitrust laws. *See* Apr. 8 Mem. & Order at 16-22. CSU requested reconsideration or, in the alternative, certification of the court's April 8 order. On July 17, the court denied CSU's

motion for reconsideration, but granted CSU's request to certify the April 8 order for interlocutory appeal. See July 17 Mem. & Order at 2-6. On September 8, the Federal Circuit declined to hear the appeal. *See CSU Holdings, Inc. v. Xerox Corp.*, Misc. No. 523, 129 F.3d 132, 1997 WL 632785 (Fed. Cir. Sept. 8, 1997). CSU now requests reconsideration of the court's ruling with respect to patents, while Xerox requests that the court extend its ruling on patents to the area of copyrights. After careful consideration of the parties' briefs and the authorities cited therein, the court will deny CSU's motion for reconsideration and grant Xerox's motion.

Factual Background

The factual background of this matter has been set forth in the court's previous orders. The following is a brief summary.

In 1984, Xerox developed its first "parts policy," in which it declared it would not sell "parts which are unique to the "10" Series products in memory writers" to any Independent Service Organization ("ISO") unless the ISO also was an end-user of the product. In January 1987, the parts policy was expanded to apply to newer "9" Series models and all "10" Series copiers, plus all new Xerox products introduced after the effective date of the policy.

In January 1989, Xerox tightened enforcement of its existing parts policies and cut off CSU's direct purchase of restricted parts from Xerox. Xerox also implemented an "on-site end-user verification" procedure when certain ISOs or their customers ordered parts from Xerox. The policy, which was implemented in June 1989, initially applied solely to the six most successful ISOs, including CSU.

As a result of Xerox's parts policies, CSU claims that it did not have an assured source of supply of parts necessary to service Xerox copiers and printers. CSU argues that it abandoned its expansion plans as a result of Xerox's parts

policies. To maintain its existing business, CSU used parts cannibalized from used Xerox equipment, parts obtained from other ISOs, and parts purchased through a limited number of customers. CSU also obtained parts from Rank Xerox, a majority-owned European affiliate of Xerox, for approximately one year, until Xerox forced Rank Xerox to stop selling parts to CSU and other ISOs.

In 1994, Xerox settled an antitrust lawsuit brought by a class of ISOs in the United States District Court for the Eastern District of Texas (the "*R&D* Litigation"). CSU opted out of the *R&D* settlement on the same day it filed the instant action against Xerox. Pursuant to the *R&D* settlement, Xerox agreed to suspend its restrictive parts policy for a period of six and one-half years. The settlement also compelled Xerox to license diagnostic software, an essential component for service, for four and one-half years.

After the *R&D* settlement, CSU claims that Xerox intensified its efforts to use price as a weapon to defeat ISO competition in the service market. CSU alleges that Xerox intentionally set the prices of its patented parts at high levels to act as a weapon against ISOs and to maintain Xerox's monopoly of the service market. Xerox charges ISOs significant markups on its parts. Xerox does not charge its customers who also service their own machines ("self-servicers") the same parts prices it charges ISOs. CSU argues that Xerox explicitly set the price of its patented parts, not to recoup its development costs, but to force ISOs to raise the prices they charge customers. CSU maintains that Xerox's goal of its pricing strategy was to eliminate ISO competition and capture 100% of the service market.

CSU alleges in its complaint that Xerox violated the Sherman Act by seeking to eliminate ISOs generally and CSU particularly as competitors in the relevant service markets for high speed copiers and printers. CSU alleges that Xerox has engaged in abusive, exclusionary, and preda-

tory conduct, by seeking to preempt business opportunities, refusing to deal with ISOs, denying essential facilities to ISOs or only providing them on unreasonable terms, and seeking to leverage its monopoly power in the relevant high volume equipment and parts markets to acquire and/or maintain monopoly power in the relevant service markets.

Xerox has asserted several defenses for its conduct. In the instant motions, Xerox contends that CSU has not suffered antitrust injury, because its alleged injury is attributable to Xerox's lawful refusal to sell patented parts and copyrighted software. Xerox also claims that CSU cannot assert a patent or copyright misuse defense to Xerox's infringement counterclaims based on Xerox's refusal to deal.

Analysis

To establish monopolization under section 2 of the Sherman Act, CSU must prove that (1) Xerox possessed monopoly power in the relevant market and (2) Xerox willfully acquired or maintained that monopoly power "as distinguished from growth or development as a consequence of a superior product, business acumen, or historic accident." *Eastman Kodak Co. v. Image Tech. Servs., Inc.*, 504 U.S. 451, 480, (1992) (quoting *United States v. Grinnell Corp.*, 384 U.S. 563, 570-71 (1966)). In the instant motions, Xerox does not contest that it has monopoly power in the relevant parts and service markets. The disputed issues arise over whether Xerox's refusal to sell its patented and copyrighted products satisfies the conduct element of a section 2 claim.[1]

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[1] If CSU can establish an antitrust violation with respect to Xerox's refusal to license its copyrights, the same evidence likely will establish copyright misuse, which is CSU's primary defense to Xerox's copyright infringement counterclaim. *See* Mar. 21 Mem. & Order at 17-18 (citing *Lasercomb, Am., Inc. v. Reynolds*, 911 F.2d 970, 978 (4th Cir. 1990)). On the other hand, CSU's patent misuse defense is premised on Xerox's pricing of its patented products after April 1994, when Xerox started selling patented parts to CSU. We held previously that Xerox could price its

CSU's primary basis for requesting reconsideration of our prior rulings and denial of Xerox's motion for reconsideration is the Ninth Circuit's recent decision in *Image Tech. Servs., Inc. v. Eastman Kodak Co.* ("*Kodak*"), 125 F.3d 1195 (9th Cir. 1997). In *Kodak*, the court held that " 'while exclusionary conduct can include a monopolist's unilateral refusal to license a [patent or] copyright,' or to sell its patented or copyrighted work, a monopolist's 'desire to exclude others from its [protected] work is a presumptively valid business justification for any immediate harm to consumers.' " *Id.* at 1218 (quoting *Data General Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1187 (1st Cir. 1994)). The court explained that "Kodak may assert that its desire to profit from its intellectual property rights justifies its conduct, and the jury should presume that this justification is legitimately procompetitive." 125 F.3d at 1219. Nevertheless, the Ninth Circuit held that the presumption afforded copyright and patent holders can be rebutted by evidence that the intellectual property holder's refusal to deal was not truly based on a desire to protect its intellectual property rights. *Id.* As explained in detail below, we decline to follow the Ninth Circuit's holding in *Kodak*. Rather, we find that where a patent or copyright has been lawfully acquired, subsequent conduct permissible under the patent or copyright laws cannot give rise to any liability under the antitrust laws. *See Miller Insituform, Inc. v. Insituform of North Am., Inc.*, 830 F.2d 606, 609 (6th Cir. 1987), *cert. denied*, 484 U.S. 1064 (1988); *United States v. Westinghouse Elec. Corp.*, 648 F.2d 642, 647 (9th Cir. 1981); *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195, 1206 (2d Cir. 1981), *cert. denied*, 455 U.S. 1016 (1982); *see also Data General*, 36 F.3d at 1185-87 (noting that a monopolist's unilateral refusal to license a patent is not

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patented parts as high as it sees fit. *See* Apr. 8 Mem. & Order at 24. Based on the Ninth Circuit's ruling in *Kodak* that a patent monopolist may charge a monopoly price for its products, CSU has not requested reconsideration of our previous ruling.

exclusionary conduct while holding that a monopolist's unilateral refusal to license a copyright may be exclusionary conduct "in rare cases"—apparently only when the copyright has been acquired in an unlawful manner).

I. A Single Patent Can Implicate Multiple Antitrust Markets.

We begin with a discussion of the distinction between a "patent monopoly" and an "economic monopoly." *See American Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350, 1367 (Fed. Cir.) ("The patent system, which antedated the Sherman Act by a century, is not an 'exception' to the antitrust laws, and patent rights are not legal monopolies in the antitrust sense of that word."), *cert. denied*, 469 U.S. 821 (1984); *Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1160 n.8 (6th Cir. 1978) ("The loose application of the pejorative term 'monopoly,' to the property right of exclusion represented by a patent, can be misleading. Unchecked it can destroy the constitutional and statutory scheme reflected in the patent system."). The scope of a "patent monopoly" is defined by the claims of the patent, not by the limits of what a court determines is the most analogous antitrust market. *See Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 221 (1980) ("[T]he boundary of a patent monopoly is to be limited by the literal scope of the patent claims."); *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 510 (1917) ("The patent law simply protects [the patent holder] in the monopoly of that which he has invented and has described in the claims of his patent."); *see also Kodak*, 125 F.3d at 1216-17 ("The relevant market for determining the patent or copyright grant is determined under patent or copyright law."). On the other hand, an "economic monopoly," as we have used the term, refers to a firm's power to control the price of a product in a properly defined relevant antitrust market.

We believe that the Ninth Circuit in *Kodak*, in reaching its conclusion, implicitly assumed that a single patent can create at most a single "inherent" economic monopoly. 125 F.3d at 1215-16. The Supreme Court in *Kodak* certainly did not reach this issue. In *Kodak*, the Supreme Court stated that it "has held many times that power gained through some natural and legal advantage such as a patent, copyright, or business acumen can give rise to [antitrust] liability if 'a seller exploits his dominant position in one market to expand his empire into the next [market].' " *Kodak*, 504 U.S. at 479 n.29 (quoting *Times-Picayune Publ'g Co. v. United States*, 345 U.S. 594, 611 (1953)). The Court's statement simply is not applicable where a patent holder, exercising his unilateral right to refuse to license or use his invention, acquires a monopoly in two separate relevant antitrust markets. There is no unlawful leveraging of monopoly power when a patent holder merely exercises its rights inherent in the patent grant. In other words, to the extent Xerox gained its monopoly power in any market by unilaterally refusing to license its patents, such conduct is permissible under the antitrust laws. Xerox's legal right to exclude ISOs in the service markets from using Xerox's patented inventions arose from its patents, not from an unlawful leveraging of its monopoly power in the parts market.

The patent statute illustrates that a patent holder's unilateral refusal to deal cannot constitute unlawful leveraging of monopoly power. The Patent Reform Act of 1988 added subsection 271(d)(4), which provides:

> No patent owner otherwise entitled to relief for infringement or contributory infringement shall be denied relief or deemed guilty of misuse *or illegal extension of the patent right* by reason of having . . . refused to license or use any rights to the patent.

35 U.S.C. § 271(d)(4) (emphasis added). The Ninth Circuit in *Kodak* and CSU maintain that this statutory provision only

bars a misuse defense to an infringement claim but does not preclude antitrust claims premised on a unilateral refusal to license a patented work. 125 F.3d at 1214 n.7. Such an interpretation is contrary to the statutory language and legislative history of the amendment. First, the statutory language "illegal extension of the patent right" is an alternative to "deemed guilty of misuse." The statutory provision would be redundant if "illegal extension of the patent right" applied only to misuse defenses. Accordingly, we believe that section 271(d)(4) should be interpreted to apply to antitrust claims. The language "illegal extension of the patent right" closely tracks the antitrust law prohibition against an unlawful extension of market power beyond the limits of the patent monopoly. *See generally Atari Games Corp. v. Nintendo of Am., Inc.*, 897 F.2d 1572, 1576 (Fed. Cir. 1990). Moreover, the legislative history also supports the conclusion that section 271(d)(4) applies to antitrust claims. Representative Kastenmeier stated that "codification of the 'refusal to use or license' as not constituting patent misuse is consistent with the current caselaw and makes sense as a matter of public policy." 134 Cong. Rec. H10646, H10648 (Oct. 20, 1988). Representative Kastenmeier first cited *SCM*, 695 F.2d at 1203-06, and then *Continental Paper Bag Co. v. Eastern Paper Bag, Co.*, 210 U.S. 405, 426-30 (1908), in the legislative history as support for the amendment. The *SCM* case involved only an antitrust claim. Why would Representative Kastenmeier cite an antitrust case as the primary authority for a statutory provision Congress intended to limit only to patent misuse claims? Finally, the court notes that section 271 of the patent statute would be virtually meaningless to many patent holders if it did not also apply to antitrust claims. It makes little sense to preclude an infringer from asserting a misuse defense based on a patent holder's refusal to deal while simultaneously allowing the infringer to recover treble damages under the antitrust laws for the very same conduct. *See Rohm & Haas Co. v. Dawson Chem. Co.*, 557 F. Supp. 739, 835 (S.D. Tex.) ("it would be

superfluous to sanction and protect activity within one area of the law and concurrently prohibit and expose a patentee to damages by reason of another body of law"), *rev'd on other grounds*, 722 F.2d 1556 (Fed. Cir. 1983). Several courts have applied section 271 to both antitrust and patent misuse defense claims. *See, e.g., Polysius Corp. v. Fuller Co.*, 709 F. Supp. 560, 575 (E.D. Pa.) (pursuant to section 271, "Congress has mandated . . . [that] plaintiffs cannot be guilty of either antitrust violations or patent misuse"), *aff'd*, 889 F.2d 1100 (Fed. Cir. 1989); *see also Data General*, 36 F.3d at 1187 (noting that section 271 "may even herald the prohibition of all antitrust claims and counterclaims premised on a refusal to license a patent.").

The Ninth Circuit in *Kodak* and CSU assume, without discussion, that a single patent (or "patent monopoly") can be equated with a single relevant antitrust market. Although most patented inventions likely will be marketed in a single antitrust market, some inventions may be useful in multiple markets. The Ninth Circuit's holding would discourage the invention of such products. Inventors rarely could refuse to license their products without fear that they had not properly defined the relevant antitrust market or considered how the relevant markets may be defined in the future. *See* Apr. 8 Mem. & Order at 18-19; *SCM*, 645 F.2d at 1206 ("If the threat of treble damage liability for refusing to license were imbedded in the minds of potential patent holders as a likely prospect incident to every successful commercial exploitation of a patented invention, the efficacy of the economic incentives afforded by our patent system might be severely diminished.").

We believe that a patent holder can lawfully acquire more than one "inherent" or "economic" monopoly by exercising the exclusionary power of a single patent. The court is not aware of any patent which states that it confers a monopoly in a particular antitrust market. Patents only claim inventions. Because each use of that invention may be prevented

by the patent holder, the patent may have some anticompetitive effect in each market in which it is used or not used. *See* Apr. 8 Mem. & Order at 20 n.5. The patent statute expressly grants patent holders the right to exclude others from manufacturing, selling, or using their inventions. *See* 35 U.S.C. § 154 ("Every patent shall contain . . . a grant to the patentee, his heirs or assigns, for the term of seventeen years . . . the right to exclude others from making, using, or selling the invention"); *see also* 35 U.S.C. § 271(d) (no patent holder shall be deemed guilty of misuse or illegal extension of the patent right by refusing to license or use any rights to the patent). Manufacturing, retail, and service markets all fall within this statutory grant of power to patent holders. Thus, Congress, by enacting the patent statute, apparently contemplated that a single patent could implicate more than one market. Courts also have allowed patent holders to exercise the exclusive power of a patent in multiple markets. *See Miller Insituform*, 830 F.2d at 609 (finding that a charge of "vertical integration" is inapplicable to a patent monopolist because "[t]here is no adverse effect on competition since, as a patent monopolist, INA, from the start, had exclusive right to manufacture, use, and sell his invention"); *Servicetrends, Inc. v. Siemens Medical Systems, Inc.*, 870 F. Supp. 1042, 1056 (N.D. Ga. 1994) ("Although the Court need not decide the issue here, it appears that defendant is entitled to a so-called monopoly in the repair of its shocktube replacement part—a monopoly power that is inherent in its right to sell or refuse to sell the patented components."), *amended on reconsideration*, 1994 WL 776878 (N.D. Ga. Jun. 24, 1994) (finding as a factual matter that the individual component parts of the shocktube were not patented).

CSU argues that the Ninth Circuit's decision in *Kodak* is supported by a number of cases that have held that patent holders are not immune from the antitrust laws. *See Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100 (1969); *United States v. Line Material Co.*, 333 U.S. 287

(1948); *Atari*, *supra*, (Fed. Cir. 1990). These authorities state the well-established law that a patent holder cannot use its patent to extend its power beyond the limits of the patent monopoly. *See Zenith*, 395 U.S. at 136 ("[T]here are established limits which the patentee must not exceed in employing the leverage of his patent to control or limit the operations of the licensee.") (emphasis added); *Line Material*, 333 U.S. at 308, ("Possession of a valid patent or patents does not give the patentee any exemption from the provisions of the Sherman Act beyond the limits of the patent monopoly.") (emphasis added); *Atari*, 897 F.2d at 1576 ("On the other hand, a patent owner may not take the property right granted by a patent and use it to extend his power in the marketplace improperly, *i.e.*, beyond the limits of what Congress intended to give in the patent laws.") (emphasis added). Notably, none of the authorities cited by CSU, with the exception of *Kodak*, support the proposition that a patent holder's unilateral refusal to deal may constitute an unlawful extension of the patent monopoly or unlawful exclusionary conduct under the antitrust laws. A patent holder's right to exclude others from practicing an invention surely is within the limits of the patent monopoly as Congress specifically authorizes such conduct in the patent statute. *See* 35 U.S.C. § 154 (right to exclude others); 35 U.S.C. § 271(d) (no misuse or unlawful extension of monopoly for refusal to deal); *see also Zenith*, 395 U.S. at 135 ("The heart of [the patent holder's] legal monopoly is the right to invoke the State's power to prevent others from utilizing his discovery without his consent."). Accordingly, courts generally have not imposed antitrust liability on patent holders for conduct that is permissible under the patent laws. *See Miller Insituform*, 830 F.2d at 609; *Westinghouse*, 648 F.2d at 647; *SCM*, 645 F.2d at 1206; *Servicetrends*, 870 F. Supp. at 1056; *Lightwave Technologies, Inc. v. Corning Glass Works*, No. 86 Civ. 759 (KC), 1991 WL 4737, at *7 (S.D.N.Y. 1991); *Chisholm-Ryder Co., Inc. v. Mecca Bros., Inc.*, 217 U.S.P.Q. 1322, 1338, 1982 WL 1950 (W.D.N.Y. 1982), *aff'd*, 746 F.2d 1489 (Fed. Cir.

1984); *GAF Corp. v. Eastman Kodak Co.*, 519 F. Supp. 1203, 1233 (S.D.N.Y. 1981); *see also* 3 Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law* ¶ 708d at 190 (Rev. 1996) (hereinafter "Areeda & Hovenkamp") ("And while courts have construed antitrust law to impose other constraints on patentee behavior—such as prohibiting the use of tying arrangements and similar practices—none of those instances involved overriding an express patent law grant."). Indeed, the Ninth Circuit in *Kodak* recognized that it could "find no reported case in which a court has imposed antitrust liability for a unilateral refusal to sell or license a patent or copyright." 125 F.3d at 1216. Our April 8 and July 17 rulings regarding patents are entirely consistent with the pre-*Kodak* authorities cited by CSU because a patent holder's unilateral refusal to deal is within the express limits of the "patent monopoly." *See United States v. Telectronics Proprietary, Ltd.*, 607 F. Supp. 753, 755 (D. Colo. 1983) ("Indeed, the unilateral right to license, exclusively or otherwise, or to refuse to license at all, reflects the essence of the statutory patent monopoly. . . . Such unilateral licensing conduct does no more than employ means 'normally and reasonably adapted' to maintain the monopoly under the law.").

In essence, CSU maintains that Xerox achieved too much success—monopoly power in two antitrust markets—by exercising its rights inherent in the patent grant. With the exception of the district court and the Ninth Circuit in *Kodak*, however, courts consistently have held that a patent holder's right to exclude others from using its patented invention is not conditioned on the economic success or failure of the patent holder. *See Dawson*, 448 U.S. at 215 (the patent statute gives a patent holder the "right to exclude others from profiting by the patented invention"); *SCM*, 645 F.2d at 1206 (a patent holder can continue "to exercise his patent's exclusionary power even after achieving commercial success; to allow the imposition of treble damages based on what a reviewing court might later consider, with the benefit of

hindsight, to be too much success would seriously threaten the integrity of the patent system"). The court believes that the result should be no different whether a patent holder's success, achieved by conduct expressly sanctioned by the patent statute, impacts one or more relevant antitrust markets. *See Miller Insituform*, 830 F.2d at 609.

The rationale of the patent system mandates that a patent holder's right to exclude cannot be limited by the definition of the relevant antitrust markets. "The federal patent system [ ] embodies a carefully crafted bargain for encouraging the creation and disclosure of new, useful, and nonobvious advances in technology and design in return for the exclusive right to practice the invention for a period of years." *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 150-51 (1989). Numerous courts have held that the patent holder's reward, his exclusive right to practice an invention, is unlimited by the law; the only limits on the patent holder's exercise of its right are created by the demand for the product which embodies the invention. *See, e.g., King Instruments Corp. v. Perego*, 65 F.3d 941, 950 (Fed. Cir. 1995), *cert. denied*, 116 S. Ct. 1675 (1996) ("Thus, the Patent Act creates an incentive for innovation. The economic rewards during the period of exclusivity are the carrot. The patent owner expends resources in expectation of receiving this reward. Upon grant of the patent, the only limitation on the size of the carrot should be the dictates of the marketplace."); *United States v. Studiengesellschaft Kohle, m.b.H.*, 670 F.2d 1122, 1129 (D.C. Cir. 1981) ("The patent gives [the holder] the unlimited right to exclude others from utilizing its process."). "A valid patent gives to the public something it never had earlier. The resultant monopoly is outside of the antitrust laws and its exercise within the patent grant is not violative thereof." *Chisholm-Ryder*, 217 U.S.P.Q. at 1338; *see United States v. United Shoe Machinery Co.*, 247 U.S. 32, 57 (1918) ("Of course, there is restraint in a patent. Its strength is in the restraint, the right to exclude others from the use of the

invention, absolutely or on the terms the patentee chooses to impose. This strength is the compensation which the law grants for the exercise of invention. Its exertion within the field covered by the patent law is not an offense against the Anti-Trust Act."). Except for the district court and Ninth Circuit in *Kodak*, we are not aware of any court that has limited a patent holder's right to exclude others to a single relevant antitrust market. The reward for a patented invention is the right to exploit the entire field of the "invention," *not* the right to exploit the single most analogous antitrust market. *See, e.g., Chisholm-Ryder*, 217 U.S.P.Q. at 1338 ("One would have to be suffering from 'unthinking monopolophobia' to deny [a patent holder] the right, given to it as the quid pro quo—its right to exclude in exchange for its disclosure to the public of these inventions—to monopolize the field covered by its patents to the exclusion of all others."); *W.L. Gore & Assocs., Inc. v. Carlisle Corp.*, 529 F.2d 614, 623 (3d Cir. 1976) ("The right to refuse to license is the essence of the patent holder's right under the patent law which rewards invention disclosure by the grant of a limited monopoly in the exploitation of the invention."); *see also King Instruments*, 65 F.3d at 950 ("This court should not presume to determine how a patentee should maximize its reward for investing in innovation.").

In *Kodak*, the Ninth Circuit also directed that the district court modify its injunction to eliminate the requirement that Kodak must sell its patented and copyrighted products at reasonable prices. The court acknowledged that "Kodak is entitled to monopoly prices on its patented and copyrighted parts." 125 F.3d at 1225. The modified injunction allows Kodak to charge "any nondiscriminatory price that the market will bear." *Id.* at 1225-26. The Ninth Circuit's treatment of the injunction is fundamentally inconsistent with its holding regarding the lawfulness of Kodak's refusal to license its intellectual property. As we have noted elsewhere, "[a] royalty demand which is so high as to preclude accep-

tance of a license offer is, after all, not appreciably different from a refusal to license upon any terms." *W.L. Gore*, 529 F.2d at 623; *see* 3 Areeda & Hovenkamp ¶ 708d at 189 ("[I]mposing a licensing duty would necessarily require judicial regulation of the royalty at which the [ ] patent would have to be licensed, for otherwise the patentee could negate the obligation by setting a rate so high that there would be no takers"). In addition, we note that the requirement of nondiscriminatory pricing directly conflicts with the basic tenet of patent law that a patent holder has an untrammeled right to selectively license its patent. *See, e.g., Genentech, Inc. v. Eli Lilly & Co.*, 998 F.2d 931, 949 (Fed. Cir. 1993), *cert. denied*, 510 U.S. 1140 (1994); *Westinghouse*, 648 F.2d at 647. A patent holder's right to price its patented products at different prices to different customers is inherent in the patent grant. *See USM Corp. v. SPS Technologies, Inc.*, 694 F.2d 505, 512-13 (7th Cir. 1982) (Posner, J.) (noting that "there is no antitrust prohibition against a patent owner's using price discrimination to maximize his income from the patent"), *cert. denied*, 462 U.S. 1107 (1983).

Finally, CSU attempts to analogize this case to *Aspen Skiing Co. v. Aspen Highlands Skiing Corp.*, 472 U.S. 585 (1985). In *Aspen Skiing*, defendant owned three of four ski locations in Aspen, Colorado. The court held that defendant had violated section 2 of the Sherman Act by refusing to continue a joint marketing arrangement with the owner of the fourth ski location in Aspen, which allowed customers to purchase a joint ticket useable at all four ski locations. The Court's holding was based on the unique facts where "competition required some cooperation among competitors" in the Aspen ski market and the joint tickets satisfied consumer demand. *Olympia Equip. Leasing Co. v. Western Union Telegraph Co.*, 797 F.2d 370, 377 (7th Cir. 1986); *see Aspen Skiing*, 472 U.S. at 603. We find *Aspen Skiing* distinguishable for two reasons. First, *Aspen Skiing* did not involve intellectual property rights. The Second Circuit has soundly

rejected the argument that "a unilateral refusal to license a patent should be treated like any other refusal to deal by a monopolist." *SCM*, 645 F.2d at 1204. We agree with the Second Circuit's reasoning in *SCM* and conclude that the general law regarding refusals to deal by a monopolist cannot logically be imported to the patent and copyright areas without seriously undermining the objectives of the intellectual property laws.[2] Second, CSU has not shown that analogous facts exist in this case, *i.e.*, that competition in the service market requires some cooperation among competitors or that consumers were harmed by Xerox's policies. The First Circuit rejected an antitrust plaintiff's attempt to invoke *Aspen Skiing* based on facts similar to this case. *See Data General*, 36 F.3d at 1188.

For all of the above reasons, we hold that if a patent is lawfully acquired, a patent holder's unilateral refusal to sell or license its patented invention does not constitute unlawful exclusionary conduct under the antitrust laws even if the refusal impacts competition in more than one relevant antitrust market.

II. A Patent Holder's Intent In Refusing To Deal Is Irrelevant.

In *Kodak*, the Ninth Circuit held that a patent holder's refusal to deal is a presumptively valid business justification for any harm to consumers, but such a presumption may be rebutted by evidence that the patent holder's refusal to deal was not truly based on a desire to protect its intellectual property rights. 125 F.3d at 1219. The *Kodak* court relied significantly on the First Circuit's *Data General* opinion for

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[2] In *Data General*, the First Circuit expressed some doubt about the applicability of *Aspen Skiing* in the area of intellectual property but assumed for purposes of the opinion that the exclusionary withdrawal of assistance could overcome, in certain circumstances, the presumption that a refusal to license a copyright is not exclusionary. 36 F.3d at 1188.

its holding. We believe, however, the *Kodak* holding goes significantly beyond, and in some respects is contrary to, the First Circuit's reasoning in *Data General*. The Ninth Circuit did not cite any authority for its conclusion that pretext is sufficient to rebut the presumption afforded patent and copyright holders for their refusal to deal. In *Data General*, the First Circuit criticized any "search for an overriding antisocial motivation" as "unilluminating." 36 F.3d at 1189. The First Circuit affirmed the grant of summary judgment in favor of the manufacturer notwithstanding the court's assumption that the manufacturer's policy was motivated by "the goal of maximizing revenues from its service business" and by the manufacturer's desire "to maintain its monopoly in the aftermarket for service of [its] computers." 36 F.3d at 1154, 1188. In contrast, the Ninth Circuit in *Kodak* treated the district court's failure to instruct that a patent holder's refusal to deal is presumptively valid as "harmless error" and accordingly affirmed a jury verdict against Kodak.[3]

CSU argues that by accepting Xerox's position, the court would have to hold that intent is not a fundamental issue under Section 2 of the Sherman Act. Intent to monopolize certainly is an essential element of a Section 2 claim, however, proof of intent to monopolize cannot transform a patent holder's unilateral refusal to deal into unlawful exclusionary conduct. The Supreme Court has held that a patent holder's subjective motivation for excluding others from use of an invention is irrelevant. In *Continental Paper Bag*, the Court

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[3] CSU argues that we should follow the First Circuit's rationale in *Data General*, and adopt only a rebuttable presumption that Xerox's refusal to license patented and copyrighted products is lawful. Even under the First Circuit's standard, however, we would find for Xerox as a matter of law because imposing liability in this case likely would frustrate the purposes of the Patent and Copyright Acts. *See id.* at 1187 n.64 ("we do not hold that an antitrust plaintiff can never rebut this presumption, for there may be rare cases in which imposing antitrust liability is unlikely to frustrate the objectives of the Copyright Act").

stated: "As to the suggestion that competitors were excluded from the use of the new patent, we answer that such exclusion may be said to have been of the very essence of the right conferred by the patent, as it is the privilege of any owner of property to use or not use it, without question of motive." 210 U.S. at 429 (citing *Connolly v. Union Sewer Pipe Co.*, 184 U.S. 540, 546 (1902)) (emphasis added). Later, in *Hartford-Empire Co. v. United States*, 323 U.S. 386 (1945), the Court explained: "A patent owner is not in the position of a quasi-trustee for the public or under any obligation to see that the public acquires the free right to use the invention. He has no obligation either to use it or to grant its use to others." *Id.* at 432-33. Courts similarly do not analyze a patent holder's subjective motivation in setting a license price. *See W.L. Gore*, 529 F.2d at 622-23 ("The [antitrust plaintiff's] speculation as to the [defendant's] motives in offering a license at what the [plaintiff] considered an exorbitant price, [ ] we regard as irrelevant.").

A patent holder's intent in exercising its exclusionary power is irrelevant because the right to exclude competitors from using an invention is expressly authorized by law. In *United States v. Rock Royal Co-op.*, 307 U.S. 533 (1939), the Supreme Court held that a price fixing conspiracy authorized by a milk cooperative law and order of the Secretary of Agriculture did not violate the antitrust laws regardless of defendants' "ulterior motives," other acts of fraud, public misrepresentations, and threats of a group boycott. *Id.* at 556-60; *see Professional Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 59 (1993) ("Whether applying *Noerr* as an antitrust doctrine or invoking it in other contexts, we have repeatedly reaffirmed that evidence of anticompetitive intent or purpose alone cannot transform otherwise legitimate activity into a sham.").

The standard articulated by the Ninth Circuit in *Kodak* makes it very difficult for a jury, a judge, or even the patent holder, to distinguish between a permissible refusal to deal

(based on a desire to profit from and protect patent rights) and an impermissible refusal to deal (apparently based on a desire to obtain a competitive advantage by excluding competitors). A patent holder does not refuse to share its invention because the property is patented, rather, the refusal is based on a desire to obtain a competitive advantage. *See* 3 Areeda & Hovenkamp ¶ 705b at 156 ("[N]o commercial firm invents except with the hope of prevailing over its rivals. And no one can apply for a patent without knowingly intending to acquire the legal power to exclude—that is the entire point of the patent grant. As a result, the inventor's intent rarely or never provides a guide to determining liability."). The patent is merely the means by which its holder may obtain this competitive advantage. To classify the desire to obtain a competitive advantage over competitors as pretext is to read the right to exclude out of the patent statute. Under the *Kodak* standard, a self-serving memorandum in the files of a corporate executive, which states that the company is refusing to license its products because they are patented, apparently could be sufficient to protect the company's refusal to deal from antitrust scrutiny. On the other hand, a company would be subject to antitrust liability for having a corporate memorandum which states that the company plans to use its intellectual property rights to exclude competitors and achieve a competitive advantage in the marketplace. The monopolist's conduct, as well as the anticompetitive effect on the relevant markets, is identical in both circumstances. We decline to adopt a rule imposing antitrust liability based on such fine line distinctions of subjective intent. In essence, the difference between protected and unprotected conduct under *Kodak* is based on whether the company engaged in the formalistic ritual of documenting that "our patent rights is what truly is motivating our refusal to deal."[4] For the above

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[4] Actually, it is unclear from the *Kodak* opinion exactly what documented reason would be sufficient to justify a refusal to deal. Accordingly, patent holders could rarely refuse to sell their

reasons and given that nearly all commercial research is based on mixed motivations, we conclude that a patent holder is not required to proffer a legitimate business justification to avoid antitrust liability for exercising its right to refuse to sell or license a patented invention. *See* 3 Areeda & Hovenkamp ¶ 705 at 156-57.

III. A Patent Holder's Other Activities Are Not Relevant In Determining The Lawfulness Of Its Refusal To Deal.

We held in our previous orders that Xerox's refusal to license its patented products cannot be transformed into unlawful conduct merely because of Xerox's other alleged exclusionary acts. *See* July 17 Mem. & Order at 6. CSU argues that assuming Xerox's refusal to sell patented products is otherwise lawful, such conduct may be illegal if Xerox engaged in other unlawful exclusionary acts. CSU maintains that otherwise lawful conduct, when combined with unlawful acts pursuant to a scheme to monopolize, may violate Section 2 of the Sherman Act. The key to our April 8 and July 17 rulings, however, is that Xerox's refusal to license is expressly authorized by patent law and therefore immune from antitrust scrutiny. This result is compelled by the holdings of *SCM*, *Miller Insituform*, and *Westinghouse*. *See*, *e.g.*, *SCM*, 645 F.2d at 1206 ("where a patent has been lawfully acquired, subsequent conduct permissible under the patent laws cannot trigger any liability under the antitrust laws") (emphasis added). None of the authorities cited by CSU discuss whether conduct expressly authorized by law may be transformed into unlawful conduct if such acts are part of a scheme to monopolize. *See Continental Ore Co. v. Union Carbide & Carbon Corp.*, 370 U.S. 690, 699 (1962) (group boycott); *Poller v. Columbia Broadcasting Sys., Inc.*, 368 U.S. 464, 468-69 (1962) (same); *Schine Chain Theatres*

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patented products with any comfort that they are in compliance with the law.

v. United States, 334 U.S. 110, 119 (1948) (agreements not to compete); *ES Dev., Inc. v. RWM Enterprises, Inc.*, 939 F.2d 547, 555 (8th Cir. 1991) (group boycott), *cert. denied*, 502 U.S. 1097 (1992); *Aspen Highlands Skiing Corp. v. Aspen Skiing Co.*, 738 F.2d 1509 (10th Cir. 1984) (refusal to include a competitor's product in package offering, discussed *supra*); *Photovest Corp. v. Fotomat Corp.*, 606 F.2d 704, 719 (7th Cir. 1979) (defendant allegedly opened new stores in close proximity to plaintiff's stores for the purpose of putting plaintiff out of business), *cert. denied*, 445 U.S. 917 (1980).

Conduct expressly authorized by one law or governmental agency cannot be simultaneously subject to antitrust scrutiny. The Supreme Court in *Rock Royal* held that if the milk cooperative law and order of the Secretary of Agriculture were "otherwise valid, the fact that their effect would be to give cooperatives a monopoly of the market would not violate the Sherman Act." 307 U.S. at 560; *see Professional Real Estate*, 508 U.S. at 56-60 (petitioning of courts protected by First Amendment cannot violate antitrust law unless suit is "objectively meritless"); *F.T.C. v. Ticor Title Ins. Co.*, 504 U.S. 621, 633-35 (1992) (price fixing arrangements authorized by state regulators as a result of actual state involvement is not an antitrust violation). In the patent-antitrust area specifically, courts have held that conduct permissible under the Patent Act is not subject to antitrust scrutiny. *See supra* text at 14 and authorities cited therein; *see also Simpson*, 377 U.S. at 24 ("The patent laws which give a 17-year monopoly on 'making, using, or selling the invention' are in *pari materia* with the antitrust laws and modify them *pro tanto*."); *Line Material Co.*, 333 U.S. at 309. ("The Sherman Act was enacted to prevent restraints of commerce but has been interpreted as recognizing that patent grants were an exception."); *United Shoe*, 247 U.S. at 57 (noting that a patent holder's exercise of its right to exclude others from the use of the invention is "within the field

covered by the patent law [and] is not an offense against the Anti-Trust Act").

CSU's proposed rule allowing a plaintiff to combine a defendant's lawful and unlawful activities effectively would eliminate the requirement that an antitrust plaintiff must show a "casual connection between the [defendant's] antitrust violations and [plaintiff's] injury." *Continental Ore*, 370 U.S. at 700; *see Zenith*, 395 U.S. at 114 n.9 ("It is enough that the illegality is shown to be a material cause of the injury"); *National Ass'n of Review Appraisers v. Appraisal Found*, 64 F.3d 1130, 1135 (8th Cir. 1995) (plaintiff "may not recover for losses due to factors other than the [defendant's] anticompetitive violations") (internal citation omitted), *cert. denied* 116 S. Ct. 702 (1996). CSU apparently claims that a single unlawful exclusionary act by a defendant, no matter how trivial or insignificant, can and should subject all of defendant's legitimate competitive activities to antitrust scrutiny. We decline to adopt such a rule. Rather, we conclude that a patent holder is not subject to antitrust liability for exercising its right to refuse to sell or license a patented invention even if the patent holder engages in other allegedly anticompetitive conduct.

IV. A Copyright Holder Can Unilaterally Refuse To Sell Or License Its Copyrighted Materials.

The principles behind the Patent and Copyright Acts are the same: to encourage the development of works that promote consumer welfare in the long term by granting exclusive rights to the inventor or author. *See Mazer v. Stein*, 347 U.S. 201, 219 (1954) ("The economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors in 'Science and useful Arts.' "); *Data General*, 36 F.3d at 1186-87 (noting the goals of Copyright Act). In our March 21

Order, we held that a copyright misuse defense is viable "based primarily on the similar policies behind the patent and copyright laws." Mar. 21 Mem. & Order at 17 (citing *Atari*, 975 F.2d at 846 and *Lasercomb*, 911 F.2d at 976); *see also Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 (1984) (there is a "historic kinship between patent law and copyright law"). CSU concedes that patents and copyrights should be treated similarly for antitrust purposes, although CSU disagrees with the rule of law to be applied. Moreover, the Ninth Circuit in *Kodak* itself did not differentiate between patents and copyrights in analyzing the lawfulness of a manufacturer's refusal to deal.

We found previously that Xerox's unilateral refusal to license or sell its copyrighted products could constitute unlawful exclusionary conduct if the scope of Xerox's copyrights is limited to the parts market and there are separate antitrust markets for parts and service. *See* Mar. 21 Mem. & Order at 18-19. This rule of law could effectively limit the scope of a copyright holder's protection to a single relevant antitrust market. A copyright holder, however, receives protection for his "expression." A copyright holder "may refrain from vending or licensing [its product] and content [itself] with simply exercising the right to exclude others from using [its] property." *Data General*, 36 F.3d at 1186 (quoting *Fox Film Corp. v. Doyal*, 286 U.S. 123, 127 (1932)); *see*, *Stewart v. Abend*, 495 U.S. 207, 228-29 (1990) ("But nothing in the copyright statutes would prevent an author from hoarding all of his works during the term of the copyright. In fact, this Court has held that a copyright owner has the capacity arbitrarily to refuse to license one who seeks to exploit the work."). The Copyright Act gives copyright holders the exclusive right to reproduce and distribute its works. *See* 17 U.S.C. §§ 106, 501. We find nothing in the Copyright Act which limits a copyright holder's right to exclude to a single relevant antitrust market. A copyright holder's right to exclude is limited by the scope of protect-

able expression that is stated in the copyright, not by an analysis of the relevant antitrust markets. In reaching this conclusion, the court adopts by reference its discussion of why a patent holder's right to exclude is limited by the patent claims, not the relevant antitrust markets. *See supra* text at 7-20; July 17 Mem. & Order at 2; Apr. 8 Mem. & Order at 19-22. Accordingly, Xerox's unilateral refusal to license its copyrights does not constitute either copyright misuse or unlawful exclusionary conduct under the antitrust laws. Other courts have reached similar results. *See Triad Systems Corp. v. Southeastern Exp. Co.*, 64 F.3d 1330, 1337 (9th Cir. 1995) (rejecting copyright misuse defense based on manufacturer's refusal to license diagnostic software to ISOs), *cert. denied*, 116 S. Ct. 1015 (1996); *Service & Training, Inc. v. Data General Corp.*, 963 F.2d 680, 690 (4th Cir. 1992) ("appellants have offered no evidence that Data General did anything beyond limiting the use of the software to repair and maintenance of specific computer hardware, activity that is protected as an exclusive right of a copyright owner"); *Advanced Computer Services of Michigan, Inc. v. MAI Systems Corp.*, 845 F. Supp. 356, 368-69 (E.D. Va. 1994) (rejecting copyright misuse defense because "[i]t is within MAI's discretion to protect its copyrighted works, and this discretion includes the right to license its software to whomever it chooses"). As with patents, a copyright holder's intent and other activities are irrelevant in the determination of the lawfulness of a refusal to deal.

CSU argues that a refusal to license a copyright cannot be treated in the same manner as a refusal to license a patent because the Copyright Act does not contain a similar statutory provision to section 271(d)(4) of the Patent Act. CSU maintains that section 271(d)(4) was a principal basis of our prior holding regarding patents. Although section 271(d)(4) lends additional support and is consistent with our ruling on patents, we would reach the same result in the absence of section 271(d)(4). *See, e.g., SCM, supra* (decided before

section 271(d)(4) was added); *Miller Insituform*, *supra* (same).

For all of the above reasons, we hold that if a copyright is lawfully acquired, a copyright holder's unilateral refusal to sell or license its copyrighted expression does not constitute unlawful exclusionary conduct under the antitrust laws or copyright misuse. A copyright holder can exercise its right to exclude others from using the protected expression, even if the exclusion impacts competition in more than one relevant antitrust market. A copyright holder's intent and any other alleged exclusionary acts are irrelevant in determining the lawfulness of a unilateral refusal to license a copyright.

IT IS THEREFORE ORDERED that the motion of CSU, L.L.C., for reconsideration of the court's April 8 and July 17, 1997 orders (Doc. # 664) is denied.

IT IS FURTHER ORDERED that Xerox's motion for reconsideration of the court's March 19 and 21, 1997 Orders (Doc. # 666) is granted. The court's March 19 and 21, 1997 Orders (Doc. ## 571 and 572) are modified as discussed herein.

Dated this 22nd day of December, 1997, at Kansas City, Kansas.

/s/
EARL E. O'CONNOR
United States District Judge

APPENDIX D

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF KANSAS

IN RE: INDEPENDENT SERVICE ORGANIZATIONS ANTITRUST LITIGATION	)	CIVIL ACTION
This Document Applies To:	)	No. MDL-1021
CSU Holdings, Inc., et al. v. Xerox Corp. (D. Kan. No. 94-2102-EEO)	)	

MEMORANDUM AND ORDER

This matter is before the court on the motion by plaintiffs CSU Holdings, Inc., et al. ("CSU") for reconsideration or certification pursuant to 28 U.S.C. § 1292(b) (Doc. #626), and the correction by defendant Xerox Corporation ("Xerox") of its supplemental statement of facts (Doc. #611). CSU seeks reconsideration of the court's April 8, 1997 Memorandum and Order ("April 8 Order") which held in part that Xerox's unilateral refusal to license or sell its patented parts cannot constitute unlawful exclusionary conduct under the antitrust laws. In the alternative, CSU requests certification of the court's rulings for interlocutory appeal. After careful consideration of the parties' briefs and evidentiary materials, the court is prepared to rule. For the reasons stated below, CSU's request for reconsideration is denied and CSU's request for certification is granted.

I. CSU's Request For Reconsideration.

A. Lawfulness Of Refusal To License Patented Products.

The court has addressed thoroughly the issue of whether a patent holder's unilateral refusal to sell or license its patented products can constitute patent misuse or unlawful exclusion-

ary conduct under the antitrust laws. *See* April 8 Order at 15-23. Thus, the court only will briefly discuss CSU's arguments in its motion for reconsideration.

CSU, relying on *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 480 (1992) ("*Kodak*"), again claims that Xerox's unilateral refusal to sell its patented inventions is prohibited under the antitrust laws because Xerox allegedly obtained monopolies in both the parts and service markets. We remain unpersuaded by CSU's reliance on the *Kodak* decision. CSU fails to explain why a patent holder cannot acquire more than one "inherent" or "economic" monopoly from a single patent. The patent statute expressly grants patent holders the right to exclude others from manufacturing, selling, or using their inventions. *See* 35 U.S.C. § 154; *see also* 35 U.S.C. § 271(d) (no patent holder shall be deemed guilty of misuse or illegal extension of the patent right by refusing to license or use any rights to the patent). Manufacturing, retail, and service markets all fall within this statutory grant of power to patent holders. Thus, Congress, by enacting the patent statute, apparently contemplated that a single patent could implicate more than one market.

Case law also lends little support to CSU's position regarding the impact of the *Kodak* decision. CSU largely ignores the holdings of three appellate courts which have found that "where a patent has been lawfully acquired, subsequent conduct permissible under the patent laws cannot trigger any liability under the antitrust laws." *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195, 1206 (2d Cir. 1981), *cert. denied*, 455 U.S. 1016 (1982); *see Miller Insituform, Inc. v. Insituform of North Am., Inc.*, 830 F.2d 606, 609 (6th Cir. 1987), *cert. denied*, 484 U.S. 1064 (1988); *United States v. Westinghouse Elec. Corp.*, 648 F.2d 642, 647 (9th Cir. 1981). Many district courts have applied this same principle. *See, e.g., Servicetrends, Inc. v. Siemens Med. Sys., Inc.*, 870 F. Supp. 1042, 1056 (N.D. Ga. 1994); *Lightwave Technologies,*

Inc. v. Corning Glass Works, No. 86 Civ. 759 (KC), 1991 WL 4737, at *7 (S.D.N.Y. 1991); *GAF Corp. v. Eastman Kodak Co.*, 519 F. Supp. 1203, 1233 (S.D.N.Y. 1981). We conclude it is highly unlikely that the Supreme Court in *Kodak* intended to overrule or alter this basic tenet of the interface between patent and antitrust law. No patent issue was before the Supreme Court in *Kodak*, the Court mentioned the word "patent" only once in a footnote to illustrate a method of lawfully acquiring monopoly power, and the Court never discussed the extent of power that a patent holder could lawfully acquire with a single patent.

CSU also relies on *Data General Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147 (1st Cir. 1994), for the proposition that "at most, a patent holder's rights provide a potentially valid business justification for its refusal to deal." CSU's continued citation of the *Data General* opinion is misleading and actually contrary to the First Circuit's reasoning in that opinion. The First Circuit's holding in *Data General* was limited to the issue of whether a copyright holder's refusal to license its copyright is lawful under the antitrust laws. In reaching its conclusion, the court analyzed the lawfulness of a refusal to license a patented product as follows:

> The courts appear to have partly settled an analogous conflict between the patent laws and the antitrust laws, treating the former as creating an implied limited exception to the latter. In *Simpson v. Union Oil Co.*, 377 U.S. 13, 24, 84 S.Ct. 1051, 1058, 12 L.Ed.2d 98 (1964), the Supreme Court stated that "[t]he patent laws which give a 17-year monopoly on 'making, using, or selling the invention' are *in pari materia* with the antitrust laws and modify them *pro tanto*." Similarly, we have suggested that the exercise of patent rights is a "legitimate means" by which a firm may maintain its monopoly power. *Barry Wright Corp. v. ITT Grinnell Corp.*, 724 F.2d 227, 230 (1st Cir. 1983). Other courts have specifically held

> that a monopolist's unilateral refusal to license a patent is ordinarily not properly viewed as exclusionary conduct. *See Miller Insituform*, 830 F.2d at 609; *Westinghouse*, 648 F.2d at 647; *SCM Corp.*, 645 F.2d at 1206; *see also* 3 *Areeda & Turner* ¶ 704, at 114. This exception is inoperable if the patent was unlawfully "acquired." *SCM Corp.*, 645 F.2d at 1208-09; *see generally* 3 *Areeda & Turner* ¶¶ 705-707, at 117-45.
>
> The "patent exception" is largely a means of resolving conflicting rights and responsibilities, i.e., a policy presumption. *See, e.g., Miller Insituform*, 830 F.2d at 609. At the same time, the exception is grounded in an empirical assumption that exposing patent activity to wider antitrust scrutiny would weaken the incentives underlying the patent system, thereby depriving consumers of beneficial products. *See, e.g., SCM Corp.*, 645 F.2d at 1209.

Id. at 1186 (parenthetical explanations omitted). After the above discussion, the First Circuit analyzed whether a similar "exception" to the antitrust laws should be carved out for copyrights. We are of the view that the *Data General* opinion actually supports the reasoning of our April 8 Order discussing patents. *See id.* at 1187 ("Section 271(d) clearly prevents an infringer from using a patent misuse defense when the patent owner has unilaterally refused a license and may even herald the prohibition of all antitrust claims and counterclaims premised on a refusal to license a patent.").

CSU also objects to an alleged factual conclusion in the court's April 8 Order regarding how Xerox obtained monopolies in both the parts and service markets. *See* April 8 Order at 21-22. CSU points to other conduct by Xerox to explain how Xerox exploited its dominant position in the parts market, not its patents, to obtain a monopoly in the service market. In the April 8 Order, the court did not intend to draw any factual conclusion of how Xerox actually

obtained its alleged monopoly in the service market(s). Rather, the court's discussion at pages 21 (last 5 lines) and 22 (first line and footnote 7) provides only that (1) Xerox's legal right to exclude ISOs in the service markets from using Xerox's patented inventions arose from its patents and (2) to the extent Xerox's refusal to license its patented inventions created monopolies in both the parts and service markets, such conduct was lawful under the antitrust laws. The April 8 Order does not preclude a future finding of antitrust liability against Xerox based on CSU's other allegations of exclusionary conduct. *See* April 8 Order at 23.

CSU also argues that Xerox's refusal to sell its patented inventions is unlawful if Xerox's refusal was part of an overall scheme to monopolize the service markets. The court notes initially that CSU failed to specifically raise this argument in its previous briefing or at the April 7, 1997, hearing. Nevertheless, the court finds that Xerox's refusal to sell its patented inventions cannot be transformed into unlawful conduct merely because of Xerox's intent or Xerox's other alleged exclusionary acts. We recognize that viewing a defendant's conduct in the aggregate may be appropriate in certain circumstances, *e.g.*, when an antitrust violation is dependent on a defendant's intent or the market effect of defendant's acts. In this case, however, Xerox's refusal to sell its patented inventions is expressly authorized by law. The market impact of the refusal, as well as Xerox's intent, is irrelevant given the absence of any allegation that the patents were unlawfully acquired or otherwise misused. Therefore, the court need not determine Xerox's intent in refusing to sell its patented parts or the market impact of Xerox's refusal.

B. CSU's Patent Misuse Defense.

In its counterclaims, Xerox sues only for infringement of its patents after it changed its parts policy in 1994 as a result of the *R&D* settlement. CSU's patent misuse defense rests

on the allegation that Xerox misused its patents after the *R&D* settlement by charging exorbitant prices for those products in an effort to eliminate ISO competition in the service markets.

The court previously found that Xerox did not misuse the seven patents at issue either by its refusal to sell its patented inventions prior to the *R&D* settlement or by selling its patented products at "exorbitant" prices after the *R&D* settlement. In its motion for reconsideration, CSU quarrels with the pricing information previously submitted by Xerox. CSU's argument regarding the prices charged by Xerox has no impact on the court's holding that Xerox is free to charge as high a price as it sees fit for its patented inventions. The pricing of a product at a unreasonably high price is not significantly different than a refusal to sell a patented invention which the court has determined is lawful. *See* April 8 Order at 23-24. Thus, a "supracompetitive" price for a patented product does not constitute misuse or an antitrust violation.

CSU's arguments regarding pricing primarily concern the court's holding that CSU failed to produce sufficient evidence of exorbitant pricing regarding the seven patents at issue. The court's holding above, which also was stated in the April 8 Order, makes any inquiry into what constitutes "unreasonable" or "supracompetitive" pricing unnecessary. As noted above, a patent holder is not required to price its inventions at competitive or even reasonable prices.

For the above reasons and those reasons stated in the court's April 8 Order, CSU's motion for reconsideration is denied.

II. CSU's Request For Certification.

CSU requests that the court certify its April 8 Order for interlocutory appeal. An interlocutory order may be certified for appeal when the district judge is of the opinion that (1)

such order involves a controlling question of law, (2) an immediate appeal from the order may materially advance the ultimate termination of the litigation, and (3) a substantial ground for difference of opinion exists with respect to the question of law. 28 U.S.C. § 1292(b); *see Bumgarner v. Blue Cross & Blue Shield of Kan., Inc.*, 716 F. Supp. 493, 504 (D. Kan. 1988) (citing *Kirchen v. Guaranty Nat'l Ins. Co.*, 422 F. Supp. 58, 60-61 (E.D. Wis. 1976)).

The court finds that the question of whether a patent holder can unilaterally refuse to sell or license its patented products is a controlling question of law in this litigation. *See In re Cement Antitrust Litig.*, 673 F.2d 1020, 1026 (9th Cir.), *cert. dismissed*, 459 U.S. 961 (1982) ("[A]ll that must be shown in order for a question to be 'controlling' is that resolution of the issue on appeal could materially affect the outcome of litigation in the district court."); *Katz v. Carte Blanche Corp.*, 496 F.2d 747, 755 (3d Cir.), *cert. denied*, 419 U.S. 885 (1974) (holding that a question is "controlling" if error in its resolution would warrant reversal of a final judgment or dismissal). This issue was the primary focus of multiple summary judgment motions on CSU's antitrust claims and Xerox's patent and copyright infringement counterclaims. The court's ruling significantly limits CSU's antitrust claims and eliminates one of CSU's primary defenses to Xerox's infringement counterclaims. If the court erred in its April 8 Order, any judgment in this matter likely would be reversed and the case would have to be re-tried.

The court also believes that the central question of law resolved in the April 8 Order may be important in a number of other cases. Although the applicability of a legal issue to other cases is not required for certification of an order, the court finds that this factor further supports certification. *See Klinghoffer v. S.N.C. Achille Lauro*, 921 F.2d 21, 24 (2d Cir. 1990).

We also find that an immediate appeal of the April 8 Order likely would materially advance the ultimate termination of this litigation. An immediate appeal would resolve issues that will be critical to evidentiary rulings and jury instructions at trial. A delay in the appeal of the court's rulings could require re-trying this matter. The parties previously estimated trial time as eight weeks. Therefore, an immediate appeal is consistent with one of the primary purposes of section 1292(b), *i.e.*, to avoid the burdens on the parties and the court of unnecessary or repeated protracted proceedings. *See* 16 Charles Alan Wright et al., *Federal Practice and Procedure* §§ 3929, 3930 (2d ed. 1996); *Resolution Trust Corp. v. Fleischer*, 871 F. Supp. 1362, 1370 (D. Kan. 1994). In addition, an immediate appeal may advance settlement negotiations between the parties.

The final factor, whether there is substantial ground for difference of opinion regarding the court's rulings, is a close call. Although the court originally ruled in CSU's favor, the court, after reconsideration, finds limited authority supporting CSU's position. The Northern District of California, in the context of a request for injunctive relief, apparently resolved the lawfulness of a refusal to sell a patented product differently than this court. *See Image Technical Servs., Inc. v. Eastman Kodak Co.*, No. C87-1686-AWT, 1996 WL 101173, at *2 (N.D. Cal. Feb. 28, 1996). In addition, the jury instructions submitted by the district court in the *Kodak* case suggest that the issue was resolved contrary to our April 8 Order. Further, at least one other district court apparently has resolved the issue of a patent holder's right to refuse to sell patented products contrary to this court. *See St. Jude Med., Inc. v. Intermedics, Inc.*, 623 F. Supp. 1289, 1297 (D. Minn. 1985).

Although we believe that there is substantial authority supporting our April 8 Order, we recognize that there is some uncertainty regarding the potential application of the Supreme Court's statements in *Kodak* to patented products in

light of the district court's rulings on remand. In particular, there is some uncertainty as to a patent holder's right to exclude others when such conduct impacts more than one relevant antitrust market. *Compare Miller Insituform*, *supra* (Sixth Circuit held that patent holders have right to exclude others in all relevant markets without violating the antitrust laws), *with Kodak, supra* (district court enjoined Kodak from enforcing its parts policy, which applied to both patented and unpatented products, because the policy was adopted to further monopolistic ends). The court also recognizes that several courts have held that copyright holders do not have an absolute right to refuse to sell or license copyrighted products. *See, e.g., Data General, supra*; *Bell Atlantic Bus. Sys. Servs., Inc. v. Hitachi Data Sys. Corp.*, 1995-2(CCH) Trade Cases ¶ 71,258, 1995 WL 798935, at *8 (N.D. Cal. Mar. 10, 1995). For these reasons and in light of the importance of this issue, the court finds that there is substantial ground for difference of opinion regarding the court's rulings. *See Mueller v. First Nat'l Bank of Quad Cities*, 797 F. Supp. 656, 663 (C.D. Ill. 1992) (sufficient difference of opinion exists if the authorities and arguments in support of the opposite conclusion are not insubstantial) (citing *Max Daetwyler Corp. v. Meyer*, 575 F. Supp. 280, 283 (E.D. Pa. 1983)).

For all of the above reasons, the court certifies its April 8, 1997 Memorandum and Order, as well as this Memorandum and Order, for interlocutory appeal pursuant to 28 U.S.C. § 1292(b). We find that the following rulings are proper for certification and constitute controlling questions of law:

1. Assuming that a patent is lawfully acquired, a patent holder's unilateral refusal to sell or license its patented invention does not constitute unlawful exclusionary conduct under the antitrust laws even if the refusal impacts competition in more than one relevant antitrust market.

2. A patent holder is not required to proffer a legitimate business justification to avoid antitrust liability for exer-

cising its right to refuse to sell or license a patented invention.

3. A patent holder is not subject to antitrust liability for exercising its right to refuse to sell or license a patented invention even if the patent holder engages in other allegedly anticompetitive conduct.

4. A patent holder is not liable for misuse or antitrust law violations for setting a "supracompetitive" sale price for a patented invention.

IT IS THEREFORE ORDERED that plaintiff's motion for reconsideration (Doc. # 625) is denied.

IT IS FURTHER ORDERED that plaintiffs' motion for certification pursuant to 28 U.S.C. § 1292(b) of this court's April 8, 1997 order (Doc. # 625) is granted as discussed above.

IT IS FURTHER ORDERED that trial of this matter is stayed pending remand of this matter.

Dated this 17th day of July, 1997, at Kansas City, Kansas.

/s/
EARL E. O'CONNOR
United States District Judge

APPENDIX E

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF KANSAS

IN RE: INDEPENDENT SERVICE ORGANIZATIONS ANTITRUST LITIGATION	)	CIVIL ACTION
This Document Applies To:	)	No. MDL-1021
CSU Holdings, Inc., et al. v. Xerox Corp. (D. Kan. No. 94-2102-EEO)	)	

MEMORANDUM AND ORDER

This matter is before the court on defendant's motion for reconsideration of the order denying summary judgment on copyright infringement (Doc. #581) and defendant's motion for reconsideration or certification pursuant to 28 U.S.C. § 1292(b) of the order denying summary judgment on patent infringement and antitrust claims (Doc. #583). After careful consideration of the parties' briefs and evidentiary materials and oral argument on the motions, the court is prepared to rule. For the reasons set forth below, both motions are granted in part and denied in part.

Defendant has included a supplemental statement of facts with its motion for reconsideration of the court's order regarding patent infringement and antitrust claims. Given the additional factual issues raised in the motion, as well as some legal arguments that were not briefed specifically in the previous summary judgment motion, the court will construe defendant's motion as a renewed motion for summary judgment on patent infringement and antitrust claims or in the alternative certification of the court's March 19, 1997, order. The standards relating to summary judgment motions previously were set forth in the court's March 19, 1997,

memorandum & order. The court incorporates that discussion by reference here.

I. Xerox's Renewed Motion For Summary Judgment On Its Patent Infringement Counterclaim.

A. Factual Background.

For purposes of this opinion, the following is a brief summary of the material facts that are uncontroverted or deemed admitted, pursuant to Federal Rule of Civil Procedure 56 and District of Kansas Rule 56.1.

This court previously found that CSU infringed Xerox's lawful patents either literally or under the doctrine of equivalents by CSU's use of the 97X0 fuser pressure roll, 97X0 (w/ MOD V) fuser heat roll, 97X0 (w/o MOD V) fuser heat roll, 1090 family fuser heat roll, 1090 family dicorotron w/ dag coating, 1090 family dicorotron w/o dag coating, and 1065 document handler belt. Mar. 19, 1997, Mem. & Order at 7.

Xerox seeks damages for CSU's infringement of patents since 1994 when Xerox filed its counterclaim. CSU has submitted an expert report with respect to its antitrust claims which identifies parts overcharge damages for the twenty-six most frequently purchased parts by CSU. Four of the twenty-six parts are among the patented parts at issue in Xerox's motion for summary judgment on its patent infringement counterclaims. From 1993 through 1997, the total overcharge calculated by CSU for these four parts is negative $43,429. The other three patented parts at issue in Xerox's patent infringement counterclaim are not included as part of CSU's damage calculation and CSU has offered no evidence to establish that it was overcharged for these parts.

B. CSU's Patent Misuse Defense.

1. Nexus Between Patents At Issue And Misuse.

To prevail on a defense of patent misuse, an alleged infringer must establish a sufficient nexus between the patent holder's alleged misconduct and the patents at issue in the litigation. *See Riker Laboratories, Inc., v. Gist-Brocades N.V.*, 636 F.2d 772, 777 (D.C. Cir. 1980); *Kolene Corp. v. Motor City Metal Treating, Inc.*, 440 F.2d 77, 84-85 (6th Cir.), *cert. denied*, 404 U.S. 886 (1971); *McCullough Tool Co. v. Well Surveys, Inc.*, 395 F.2d 230, 238-39 (10th Cir.), *cert. denied*, 393 U.S. 925 (1968). Xerox has offered additional factual support for its contention that CSU has failed to establish this requisite nexus. This additional evidence is properly considered with respect to Xerox's renewed motion for summary judgment on its patent infringement counterclaims.

Xerox sues only for infringement of its patents after it changed its parts policy in 1994 as a result of the *R&D* settlement. CSU claims that Xerox continued to misuse its patents after the *R&D* settlement by charging exorbitant prices for those products in an effort to eliminate ISO competition in the service market. CSU has failed to come forward with any evidence to substantiate this allegation with respect to the seven patented parts at issue.

As part of its antitrust case, CSU claims parts overcharge damages for only four of the seven patented parts at issue. According to CSU's expert, the total "overcharge" from 1993 through 1997 for these four parts is *negative* $43,429. For two of the four parts, CSU pays less today than it claims is a "reasonable" price. For three of the four parts, CSU paid less than a reasonable price at some point in time between 1993 and 1997. For the remaining part, CSU pays approximately $46 for the part while it claims that the reasonable price is approximately $27. CSU has failed to prove that this price differential is sufficient to constitute misuse. Thus, with

respect to the record evidence of the patented parts at issue, CSU actually paid near or less than a reasonable price for the parts.[1]

CSU claims that the omission of the other three patented parts from its damage calculation does not mean that the parts were not priced intentionally by Xerox to exclude competition. Yet, CSU has not offered any evidence of the actual price it paid for the three patented parts not included in its damage calculation.

Xerox is not precluded from recovery on its patent infringement counterclaims based on CSU's general evidence of "misuse in the air." *Kolene*, 440 F.2d at 84. CSU bears the burden of establishing the requisite nexus between the patents at issue and the alleged misuse. Despite two opportunities, CSU has failed to come forward with any evidence to establish that Xerox's pricing of the seven patented parts at issue constitutes misuse. CSU argues that its damage calculation is conservative and that what it characterizes as a "reasonable price from Xerox" is often higher than the prices charged by third parties. CSU simply attempts to blur the fact that it has not offered any evidence that Xerox charged (or CSU paid) exorbitant prices for the seven patented parts at issue. The only record evidence on this point is the report of CSU's expert, which establishes that three of the seven parts are not included in CSU's parts overcharge calculation

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[1] It is immaterial whether CSU purchased these parts at less than a reasonable price from Xerox or third parties. In either case, CSU cannot establish that Xerox's high prices were exclusionary and therefore constitute misuse. In addition, CSU has failed to come forward with specific evidence to establish its suppliers of each of the various patented parts (Xerox or third parties) and the price it pays for those parts. Even if the court reviewed what Xerox charged for the seven patented parts, rather than what CSU paid, the record evidence establishes that Xerox's prices as a whole were approximately 3% higher than what CSU claims is a reasonable price. This evidence is insufficient as a matter of law to establish patent misuse.

and that CSU paid less than what it characterizes as a reasonable price for the other four parts combined over the relevant time period. As for Xerox's prices, the evidence establishes that for all infringing parts as a whole, Xerox's prices are on average only 3% higher than the price CSU claims to be reasonable. The court finds that this evidence is insufficient as a matter of law to sustain CSU's patent misuse defense.

The parties have argued in their briefs whether the seven patented parts were included in Xerox's pre-1994 parts policy. To the extent any of the seven patented parts were included in Xerox's prior parts policy and arguably could constitute misuse, such misuse has been purged by the availability of patented parts since 1994 and CSU's ability to purchase the various parts at prices near or below what it characterizes as a "reasonable" price. CSU has failed to establish that Xerox misused its patents under the standard of misuse that the court articulated in its March 19, 1997, memorandum and order.

Even if CSU could establish the requisite nexus between the patents at issue and the alleged misuse, the court finds below that Xerox's unilateral refusal to sell or license its patented parts (or pricing the products at "unreasonable" prices) cannot constitute misuse. *See infra* part II.

2. Filing Of Infringement Action As Misuse.

CSU also claims that Xerox's filing of its counterclaims in the instant action constitutes patent misuse. The court previously held that CSU's defense was not precluded as a matter of law because (1) the *Noerr-Pennington*[2] doctrine provides antitrust immunity, not patent or copyright misuse immunity, and (2) evidence of Xerox's intent in prosecuting its infringement counterclaims when viewed together with

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[2] *See Eastern R.R. Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127, (1961); *United Mine Workers of Am. v. Pennington*, 381 U.S. 657 (1965).

CSU's other evidence may constitute misuse. Mar. 19, 1997, Mem. & Order at 18. Based on the parties' supplemental briefing and further consideration of the parties' original briefing, the court finds that the filing of Xerox's patent infringement counterclaims cannot constitute misuse as a matter of law.

The patent statute precludes a finding of misuse when the patent holder seeks "to enforce his patent rights against infringement." 35 U.S.C. § 271(d)(3). A finding of misuse is precluded, however, only if the patent infringement suit is brought in good faith. *See Glaverbel Societe Anonyme v. Northlake Mktg. & Supply, Inc.*, 45 F.3d 1550, 1558-59 (Fed. Cir. 1995). As this court noted previously, the Supreme Court has held that an infringement suit is immune from antitrust liability unless the defendant can establish that the suit is objectively baseless. *See Professional Real Estate Investors. Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 56-60 (1993) ("*PRE*"). In discussing the sham exception under the *Noerr-Pennington* doctrine, the Supreme Court has stated that

> the lawsuit must be objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits. If an objective litigant could conclude that the suit is reasonably calculated to elicit a favorable outcome, the suit is immunized under Noerr, and an antitrust claim premised on the sham exception must fail. Only if challenged litigation is objectively meritless may a court examine the litigant's subjective motivation.

Id. at 60.

CSU effectively concedes that Xerox's patent infringement counterclaims cannot be characterized as objectively baseless. CSU also does not contest that Xerox's filing of its infringement counterclaims alone is insufficient to sustain a finding of misuse. On the other hand, CSU argues that Xerox's subjective intent in bringing its counterclaims is

relevant to its misuse defenses. Given the court's finding above that CSU has not established the requisite nexus between the patents at issue and the alleged misuse, the court finds that the filing of Xerox's counterclaims alone is insufficient to support a finding of misuse.

The court finds that there is no principled reason to distinguish the "sham" exception under the *Noerr-Pennington* doctrine from the "bad faith" exception under 35 U.S.C. § 271(d)(3). In *PRE*, the Supreme Court stated that

> [w]hether applying Noerr as an antitrust doctrine or invoking it in other contexts, we have repeatedly reaffirmed that evidence of anticompetitive intent or purpose alone cannot transform otherwise legitimate activity into a sham.

Id. at 59 (emphasis added); *see Bill Johnson's Restaurants, Inc. v. N.L.R.B.*, 461 U.S. 731, 743-44 (1983) (analogizing *Noerr's* sham exception to the "improperly motivated" lawsuit standard under the National Labor Relations Act); *Computer Assocs. Int'l. Inc., v. American Fundware, Inc.*, 831 F. Supp. 1516, 1523 (D. Colo. 1993) (the *Noerr-Pennington* doctrine "is a constitutional, not an antitrust, doctrine."). Indeed, the only authority offered by the parties on this point applied an identical analysis to determine whether a lawsuit constituted patent misuse or an antitrust violation. *See Glaverbel*, 45 F.3d at 1558-59.

In addition, the court finds that the same First Amendment principles which protect a patent holder from antitrust violations also should protect a patent holder from assertion of a misuse defense. In either case, a patent holder would be penalized for seeking the protection of the courts which is "among the most precious of the liberties safeguarded by the Bill of Rights." *United Mine Workers of Am., Dist. 12 v. Illinois State Bar Ass'n*, 389 U.S. 217, 222 (1967). A patent holder's access to the courts therefore is immunized unless his lawsuit is (1) objectively meritless and (2) brought in an

attempt to interfere directly with the business of his competitor. *See PRE*, 508 U.S. at 60-61. As noted above, CSU has not offered any evidence to establish that Xerox's patent infringement counterclaim could be characterized as objectively meritless. Indeed, the court has granted summary judgment in favor of Xerox on this claim. A finding of misuse based on the filing of Xerox's patent infringement counterclaim therefore is precluded as a matter of law.

The court previously did not resolve the issues of willfulness, estoppel, laches, and statute of limitations based on the court's finding that CSU's misuse defense could not be precluded as a matter of law. The court now will address those issues.

C. Willfulness Of CSU's Infringement.

Xerox claims that CSU's infringement was willful because CSU had actual notice of Xerox's patent rights yet failed to exercise its affirmative duty of due care. *See Ryco, Inc. v. Ag-Bag Corp.*, 857 F.2d 1418, 1428 (Fed. Cir. 1988) (citation omitted). "The test [of due care] is whether, under all the circumstances, a reasonable person would prudently conduct himself with any confidence that a court might hold the patent invalid or not infringed." *Id.* The duty of due care "normally requires that a potential infringer obtain competent legal advice before infringing or continuing to infringe." *Id.* The failure to obtain legal advice, however, is not determinative and constitutes only one factor in the willfulness determination. *Id.*

CSU contends that it "consult[ed] with its antitrust counsel and, based on their advice, has asserted a misuse defense in good faith." Xerox, relying on *Lightwave Technologies, Inc. v. Corning Glass Works*, 19 U.S.P.Q.2d 1838 (S.D.N.Y. 1991), argues that CSU has failed to meet the requirements of due care as a matter of law. In *Lightwave*, the accused infringer obtained an opinion from its antitrust counsel that it had a "submissible antitrust case against Corning, and that a

verdict for Lightwave on its antitrust claims would render the patent unenforceable." *Id.* at 1847. The jury found that the defendant had willfully infringed plaintiff's patents. The court refused to overturn the jury verdict, finding that "[g]iven the complexity of antitrust law, having a 'submissible antitrust case' is hardly a sound basis for proceeding with patent infringing activities." *Id.* at 1847-48. "[C]onclusory oral opinions do not discharge the duty of care." *Id.* at 1848. The court in *Lightwave* also found significant the fact that the accused infringer never articulated in clear, specific, and concrete terms its patent misuse claims and did not even raise the issue until the conclusion of the antitrust phase of trial. *Id.*

In this case, CSU timely raised the misuse defense and certainly articulated its misuse defense in response to Xerox's motion for summary judgment. In addition, the court is not aware of any case that requires an alleged infringer to receive advice from patent counsel, as opposed to antitrust counsel, in order to maintain a misuse defense in good faith. In fact, the misuse defense asserted in this case by CSU was based on an alleged antitrust violation. Therefore, antitrust counsel's advice was pertinent. Although counsel may not have predicted perfectly which patents Xerox would choose to enforce and whether the court ultimately would sustain the misuse defense, counsel's advice was sufficient to raise an issue of fact as to whether CSU had a reasonable belief that it may not be liable to Xerox for patent infringement. The court accordingly denies Xerox's motion for summary judgment on the willfulness issue.

D. Estoppel.

To establish estoppel in the patent infringement context, the alleged infringer must establish that (1) the patent owner, through conduct, positive statement, or misleading silence, represented to the infringer that its business would be unmolested by claims of infringement, (2) the alleged infringer

relied on this communication, and (3) the infringer would be materially prejudiced if the patent owner is allowed to proceed with its infringement action. *See ARB Robotics, Inc. v. GMFanuc Robotics Corp.*, 52 F.3d 1062, 1063 (Fed. Cir.), *cert. denied*, 116 S.Ct. 306 (1995); *A.C. Aukerman Co. v. R.L. Chaides Constr. Co.*, 960 F.2d 1020, 1041-43 (Fed. Cir. 1992); *Adelberg Laboratories, Inc. v. Miles, Inc.*, 921 F.2d 1267, 1272 (Fed. Cir. 1990). CSU contends that (1) Xerox has known since 1987 that CSU was obtaining parts from sources other than Xerox, (2) Xerox never indicated to CSU that Xerox believed CSU was infringing on its valid patents, and (3) CSU expanded into other cities before Xerox filed its counterclaims in reliance on Xerox's silence. Xerox does not dispute any of these facts for purposes of the instant motion.

The first element of estoppel applicable to this case involves the patent owner's "misleading silence." CSU points only to Xerox's silence without explaining how Xerox's silence was misleading. The Federal Circuit has held that "[s]ilence alone is not sufficient affirmative conduct to give rise to estoppel." *Meyers v. Asics Corp.*, 974 F.2d 1304, 1308 (Fed. Cir. 1992) (citations omitted). Rather, estoppel can be established by silence only if other factors are present. *See ARB Robotics*, 52 F.3d at 1064 ("Misleading action by the patentee may be silence, if such silence is accompanied by some other factor indicating that the silence was sufficiently misleading to amount to bad faith."); *A.C. Aukerman*, 960 F.2d at 1042 ("plaintiff's inaction must be combined with other facts respecting the relationship or contracts between the parties to give rise to the necessary inference that the claim against the defendant is abandoned"). For example, a patent owner's silence may support an estoppel defense when the patent owner specifically objects to the alleged infringer's activities, but then remains silent for a long period of time before filing an infringement action. *See Meyers*, 974 F.2d at 1308-09; *A.C. Aukerman*, 960 F.2d at 1042. CSU has failed to show any alleged misconduct by

Xerox besides its silence and, therefore, CSU's defense of estoppel cannot be supported.

CSU also cannot establish the second element of its defense, *i.e.*, that it relied on Xerox's silence. An infringer cannot assert reliance on the patent owner's silence if the infringer did not even know of the potential patent problem. *See A.C. Aukerman*, 960 F.2d at 1042-43. CSU cannot claim that it relied on Xerox's silence regarding the seven patents at issue when CSU has not presented any evidence that it was aware of the patents and the potential infringement.

Finally, CSU has not established that it would be materially prejudiced by allowing Xerox to proceed because CSU has not shown that it took any actions in reliance on Xerox's silence. CSU claims without any evidentiary support that it expanded to two cities from 1987 through 1994 based on Xerox's silence. After Xerox filed its counterclaims in November 1994, CSU expanded to four cities in 1995 and one city so far in 1997. In light of CSU's expansion after Xerox filed its infringement counterclaims, CSU bears the burden of establishing that it would have altered its pre-November 1994 expansion if Xerox would have sued earlier. *See Meyers*, 974 F.2d at 1309. CSU has offered no evidence on this point. The record evidence suggests that CSU continued its expansion plans despite Xerox's filing of its infringement counterclaims. The court accordingly finds that CSU has presented insufficient evidence to establish that it took any actions in reliance on Xerox's silence. For each of the above reasons, the court grants summary judgment in favor of Xerox on CSU's estoppel defense.

E. Laches.

A successful laches defense bars damages only for conduct occurring prior to the filing of the lawsuit. *See Adelberg*, 921 F.2d at 1270 ("defense of laches bars the recovery of damages for any patent infringement occurring prior to the filing of the lawsuit"); *A.C. Aukerman*, 960 F.2d at 1041 ("laches

bars damages for a patent defendant's pre-filing infringement but not for post-filing damages or injunctive relief"); *Leinoff v. Louis Milona & Sons, Inc.*, 726 F.2d 734, 741 (Fed. Cir. 1984) (laches has "no effect on an action for post-filing damages or an injunction"). CSU contends that the laches doctrine is a defense to all damages and injunctive relief except for post-filing injunctive relief. Neither authority cited by CSU supports the proposition that post-filing damages are precluded by a successful laches defense. *See Union Shipbuilding Co. v. Boston Iron & Metal Co.*, 17 F. Supp. 318 (D. Md.), *aff'd*, 93 F.3d 781 (4th Cir. 1936); *Rajah Auto Supply Co. v. Belvidere Screw & Machine Co.*, 275 F. 761, 764 (7th Cir. 1921). In this case, Xerox seeks only damages accruing after the filing of its patent infringement counterclaims. Thus, CSU's defense of laches fails as a matter of law.

F. Statute Of Limitations.

Xerox originally moved for summary judgment on CSU's statute of limitations defense to Xerox's patent infringement counterclaims. CSU did not respond to Xerox's contentions. Xerox seeks only prospective relief for its patent infringement counterclaims and, therefore, the statute of limitations is not a bar to its claims. CSU's statute of limitations defense is invalid as a matter of law.

For the above reasons, the court grants summary judgment in favor of Xerox on its patent infringement counterclaim with respect to the seven parts identified in the court's March 19, 1997, memorandum and order. The only remaining issues on Xerox's patent infringement counterclaim, with respect to the seven patented parts previously referenced, are whether CSU willfully infringed Xerox's patents and the amount of damages.

II. Xerox's Renewed Motion For Summary Judgment On CSU's Antitrust Claims.

To establish monopolization under section 2 of the Sherman Act, CSU must prove that (1) Xerox possessed monopoly power in the relevant market and (2) Xerox willfully acquired or maintained that monopoly power "as distinguished from growth or development as a consequence of a superior product, business acumen, or historic accident." *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 480 (1992) ("*Kodak*") (quoting *United States v. Grinnell Corp.*, 384 U.S. 563, 570-71 (1966)). For purposes of this motion only, Xerox does not contest that it has monopoly power in the relevant parts and service markets. The disputed issues arise over whether Xerox's actions satisfy the conduct element of a section 2 claim. In particular, Xerox challenges the court's previous rulings that an antitrust claim may be based on (1) Xerox's refusal to sell patented products and (2) Xerox's pricing strategies relating to its patented products.[3]

A. Refusal To Sell Patented Products As An Antitrust Violation.

Xerox requests reconsideration or certification of the court's ruling that Xerox's refusal to sell its patented products may constitute an antitrust violation. This court in effect defined the scope of a patent holder's right to license or use its invention by the relevant antitrust market. This court's previously announced rule would limit a patent holder from using its patent to lawfully acquire a monopoly in more than one antitrust market. The court's ruling was based on CSU's evidence that Xerox leveraged its monopoly power in the parts market to maintain or acquire its monopoly in the

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[3] The court notes that CSU's misuse and antitrust allegations regarding Xerox's refusal to sell and high pricing of its patented parts are based on the legal theory prohibiting monopoly leveraging. *Kodak*, 504 U.S. at 479 n. 29.

service market. Although CSU may have sufficient other evidence to support such a leveraging theory, the court finds now that Xerox's unilateral refusal to sell or license its patented parts cannot constitute patent misuse or unlawful exclusionary conduct under the antitrust laws.

The patent statute allows a patent holder to exclude others from manufacturing, selling, or using his inventions. 35 U.S.C. § 154. The patent statute also provides that "[n]o patent owner otherwise entitled to relief for infringement . . . of a patent shall be denied relief or deemed guilty of misuse *or illegal extension of the patent right* by reason of his . . . refus[al] to license or use any rights to the patent." 35 U.S.C. § 271(d)(4) (emphasis added). "The heart of (the patentee's) legal monopoly is the right to invoke the State's power to prevent others from utilizing his discovery without his consent." *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195, 1206 (2d Cir. 1981) (quoting *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 135 (1969)), *cert. denied*, 455 U.S. 1016 (1982); *see United States v. Westinghouse Elec. Corp.*, 648 F.2d 642, 647 (9th Cir. 1981) (right to exclude others is the essence of the patent monopoly). Of course, a patent holder cannot use his patent to justify anticompetitive conduct beyond the limit or scope of the patent grant. *See Zenith*, 395 U.S. at 136 ("But there are established limits which the patentee must not exceed in employing the leverage of his patent to control or limit the operations of the licensee."); *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 230 (1964) ("[T]he patent monopoly may not be used in disregard of the antitrust laws."). For example, a patent holder generally cannot grant licenses on the condition that royalties are paid on unpatented products. *See, e.g., Zenith*, 395 U.S. at 135.

There is no prohibition, however, from lawfully using a patent to acquire a monopoly in more than one relevant antitrust market. In other words, a single "patent monopoly" can be used to secure multiple "economic monopolies," *i.e.*,

monopolies in more than one relevant antitrust market. *See Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 221 (1980) ("[T]he boundary of a patent monopoly is to be limited by the literal scope of the patent claims."); *American Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350, 1367 (Fed. Cir.) ("The patent system, which antedated the Sherman Act by a century, is not an 'exception' to the antitrust laws, and patent rights are not legal monopolies in the antitrust sense of that word."), *cert. denied*, 469 U.S. 821 (1984). If the court held otherwise, then a patent holder rarely could refuse to license his product without fear that he had not properly defined the relevant antitrust market or considered how the relevant market may be defined in the future. For example, if Xerox obtained a patent for a part that could be used in either a copier or a printer, and a jury determined that there were separate antitrust markets for copiers and printers, then Xerox could refuse to license its product in only one of the relevant antitrust markets.[4] We do not think Congress intended such limited patent protection or to require such perfect foresight by the patent holder in defining the relevant antitrust markets. A patent holder's rights should not fluctuate from day to day based on the changing relevant market definitions. Indeed, several courts have held that "where a patent has been lawfully acquired, subsequent conduct permissible under the patent laws cannot trigger any liability under the antitrust laws." *SCM*, 645 F.2d

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[4] In addition, difficulties could arise if the relevant market definitions change over time. For example, the relevant market may include both parts and service at the time a patent holder researches and creates an invention for a copier part. A patent holder certainly would undertake his research with the expectation that he could exclude others from use of the invention in the relevant market which includes parts and service. If the relevant market changed after the patent holder marketed his invention so that parts and service became separate markets, then the patent holder's right to exclude would be severely diminished. In fact, the patent holder's right to exclude would be practically meaningless if the patent holder wanted to continue to compete in both markets.

at 1206; *see Miller Insituform, Inc. v. Insituform of North Am., Inc.*, 830 F.2d 606, 609 (6th Cir. 1987), *cert. denied*, 484 U.S. 1064 (1988); *Servicetrends, Inc. v. Siemens Medical Sys., Inc.*, 870 F. Supp. 1042, 1056 (N.D. Ga. 1994); *see also Simpson v. Union Oil Co. of Cal.*, 377 U.S. 13, 24 (1964) ("The patent laws which give a 17-year monopoly on 'making, using or selling the invention' are in *pari materia* with the antitrust laws and modify them *pro tanto*."); *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1187 (1st Cir. 1994) (recognizing, as part of copyright analysis, that section 271 of the patent statute may preclude all antitrust claims and counterclaims premised on a refusal to license a patent). Thus, a patent holder "retains the power to exclude others from manufacturing, using, and selling his inventions without running afoul of the antitrust laws." *Miller*, 830 F.2d at 609; *see SCM*, 645 F.2d at 1209.

CSU argues that a patent holder's unilateral refusal to sell is not legal when the patent holder exercises this right to extend its monopoly into another relevant antitrust market. Although a patent holder perhaps extends his "economic power" by this conduct, he has not expanded the scope of the patented "invention."[5] Indeed, the patent statute states that the unilateral refusal to license or use a patent shall not constitute misuse and shall not be deemed an "illegal extension of the patent right." 35 U.S.C. § 271(d)(4). The fact that Xerox has attempted to secure the full benefit of its "patent monopoly" by entering more than one market does not raise any antitrust concerns which have not already been considered and balanced by Congress in enacting the patent

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[5] As Xerox correctly notes, "[n]o patent states that it confers a monopoly in any relevant [antitrust] market. A patent only defines the invention. Because each use of that invention may be prevented by [the patent holder], the patent may have some anticompetitive effect in each market in which it is used [or not used]."

statute.[6] The Sixth Circuit has rejected the theory that a patent holder cannot realize the full value of its invention by entering more than one relevant antitrust market. *See Miller*, *supra*. The Sixth Circuit stated that

> [a]pparently, appellants' point is that assuming both the position of licensor and of competitor with its licensees renders INA potentially liable for antitrust violations. INA has recognized this theory of appellants as charging "vertical integration," but persuasively argues that this theory is inapplicable to a patent monopolist. We agree. There is no adverse effect on competition since, as a patent monopolist, INA, from the start, had exclusive right to manufacture, use, and sell his invention.

Miller, 830 F.2d at 609; *see Servicetrends*, 870 F. Supp. at 1056 ("Although the Court need not decide the issue here, it appears that defendant is entitled to a so-called monopoly in the repair of its shocktube replacement part—a monopoly power that is inherent in its right to sell or refuse to sell the patented components."), *amended on reconsideration*, 1994 WL 776878 (N.D. Ga. Jun. 24, 1994) (finding as a factual matter that the individual component parts of the shocktube were not patented).

CSU's reliance (and this court's previous reliance) on the Supreme Court's statement in *Kodak* is misplaced. In *Kodak*, the Court stated that it "has held many times that power gained through some natural and legal advantage such as a patent, copyright, or business acumen can give rise to [anti-

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[6] Courts also have struck the same balance between the patent and antitrust laws. *See, e.g., SCM*, 645 F.2d at 1205-06. Under CSU's interpretation of *Kodak*, inventors would have very little incentive to develop products useful in more than one relevant antitrust market because they could not exclude competitors in more than one market (assuming the patent holder competes in both markets). To preclude patent holders from realizing the full value of their inventions by unilaterally excluding others seems to stand the patent law on its head.

trust] liability if 'a seller exploits his dominant position in one market to expand his empire into the next [market].' " *Kodak*, 504 U.S. at 479 n.29 (quoting *Times-Picayune Publ'g Co. v. United States*, 345 U.S. 594, 611 (1953)). The Court's statement simply is not applicable where a patent holder, exercising his unilateral right to refuse to license or use his invention, acquires a monopoly in two separate relevant antitrust markets. There is no unlawful leveraging of monopoly power when a patent holder merely exercises its rights inherent in the patent grant. In other words, Xerox did not exploit its *dominant position* in the parts market to obtain a monopoly in the service market. Rather, Xerox exploited its lawful *patent* to obtain a monopoly in both the parts and service markets. Xerox's power and right to exclude ISOs from the service market arose from its *patented invention*, not from its *position* in the parts market.

This court finds the Supreme Court's statement in *Kodak* inapplicable for other reasons as well. First, Kodak's refusal to sell patented parts was not at issue in the decision. The Supreme Court referred to patents only once to illustrate a method of lawfully acquiring monopoly power. We find nothing in *Kodak* which addresses the issue of whether a single patent can give its holder a monopoly in more than one antitrust market. Second, the statement in *Kodak*, as evidenced by the cases cited by the Court, applied to concerted and contractual activity and was in the context of a tying claim. *See Data General*, 36 F.3d at 1185-86 n.63 (citing footnote 29 of *Kodak* for the proposition that concerted or contractual behavior is prohibited and not even referring to the same footnote when addressing whether a copyright holder's unilateral refusal to sell its copyrighted products is lawful). In contrast, Xerox has unilaterally refused to sell its patented parts.[7]

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[7] CSU also fails to explain why the court should assume that Xerox's monopoly over the parts market was created first and then used as leverage to gain a monopoly over the service market. It

CSU complains primarily because Xerox achieved too much success by exercising its rights inherent in the patent grant. Of course, a patent holder can continue "to exercise his patent's exclusionary power even after achieving commercial success; to allow the imposition of treble damages based on what a reviewing court might later consider, with the benefit of hindsight, to be too much success would seriously threaten the integrity of the patent system." *SCM*, 645 F.2d at 1206. The court believes that the result should be no different whether a patent holder's success (achieved by conduct expressly sanctioned by the patent statute) impacts one or more relevant antitrust markets. *See Miller*, 830 F.2d at 609.

For the above reasons, the court grants partial summary judgment in favor of Xerox on CSU's antitrust claims. Xerox's unilateral refusal to sell or license its patented parts cannot give rise to antitrust liability. The court's ruling does not preclude a finding of antitrust liability against Xerox based on CSU's other allegations of exclusionary conduct.[8]

B. Pricing Of Products As An Antitrust Violation.

Xerox also seeks reconsideration or certification of the court's ruling that Xerox's pricing of its patented products at an unreasonably high price or in a discriminatory manner can constitute an antitrust violation. The court essentially has resolved the first issue by finding that Xerox's exercise of its unilateral right to refuse to sell or license its patented prod-

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appears that Xerox's monopoly in both markets may have been created simultaneously. In any event, it was Xerox's refusal to license its patented parts that created both monopolies.

[8] Among these other allegations, CSU claims that Xerox refused to sell unpatented parts to ISOs, implemented burdensome procedures for customers ordering parts, threatened to impose enormous costs for customers switching service between ISOs and Xerox, and cut service prices in an effort to eliminate ISO competition.

ucts cannot constitute an antitrust violation. A demand for a price which is "so high as to preclude acceptance of a license offer is, after all, not appreciably different from a refusal to license upon any terms." *W.L. Gore & Assocs. v. Carlisle Corp.*, 529 F.2d 614, 623 (3d Cir. 1976). Thus, if Xerox could lawfully refuse to sell its patented parts, it certainly could price its parts at a price as high as it sees fit. *See Brulotte v. Thys Co.*, 379 U.S. 29, 33 (1964) ("A patent empowers the owner to exact royalties as high as he can negotiate with the leverage of that monopoly.").

CSU also claims that Xerox charged higher prices to self-servicers (customers who self service their copiers and printers) than ISOs. Of course, inherent in Xerox's patent grant is the right to license its product to some and not to others. *Westinghouse*, 648 F.2d at 647 ("The right to license that patent, exclusively or otherwise, or to refuse to license at all is 'the untrammeled right' of the patentee.") (citation omitted). Thus, Xerox has the right to price its patented products at different prices to different customers. *See USM Corp. v. SPS Technologies, Inc.*, 694 F.2d 505, 512-13 (7th Cir. 1982) (criticizing shrimp peeler cases and finding that "there is no antitrust prohibition against a patent owner's using price discrimination to maximize his income from the patent"), *cert. denied*, 462 U.S. 1107 (1983); *Westinghouse*, 648 F.2d at 647. CSU has not pointed to any authority holding that a patent holder cannot charge different prices to customers for a patented product.[9]

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[9] Even if price discrimination by a patent holder could be illegal under the antitrust laws, the court doubts that the evidence presented by CSU in opposition to Xerox's summary judgment motion is sufficient. CSU's only evidence of price discrimination is a contract between the Navy and Xerox which does not appear to be comparable to a contract between CSU and Xerox. In addition, the R & D settlement specifically prohibited Xerox from charging its self-servicers a lower price than ISOs.

For the above reasons, the court finds that Xerox's pricing of its patented parts cannot constitute exclusionary conduct under the antitrust laws.

III. Xerox's Motion For Reconsideration Of The Court's Copyright Summary Judgment Order.

Xerox seeks reconsideration of this court's order denying Xerox summary judgment on its copyright infringement counterclaims. Xerox claims that CSU has not provided any evidence to establish any misuse by Xerox pertaining to its copyrighted manuals. Although Xerox previously did not distinguish plaintiff's evidence regarding diagnostic software from manuals, the court finds no record evidence establishing that Xerox charged an unreasonable or even a high price for its operator and service manuals after Xerox resumed sale of its manuals in 1994. Of course, CSU has presented evidence that Xerox refused to sell operator and service manuals prior to April 1994.

The same principles under the *Noerr-Pennington* doctrine discussed earlier apply equally to CSU's claim that the filing of Xerox's copyright infringement counterclaims constitutes misuse. CSU has failed to establish that Xerox's counterclaims are objectively meritless. The court issued a preliminary injunction with respect to these copyright claims and has granted summary judgment in favor of Xerox on a large portion of its claims. CSU, therefore, is barred from asserting that the filing of Xerox's copyright infringement counterclaims can constitute misuse.

For the above reasons, the court grants summary judgment in favor of Xerox on CSU's misuse defense with respect to copyrighted manuals for the time period after April 1994.[10]

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[10] CSU filed a motion for discovery sanctions against Xerox on March 13, 1997. CSU claims that Xerox should be estopped from denying CSU's laches and statute of limitations defenses because of Xerox's discovery conduct. The court accordingly will defer

IT IS THEREFORE ORDERED that defendant's motion for reconsideration of the order denying summary judgment on copyright infringement (Doc. #581) is granted in part and denied in part as discussed above.

IT IS FURTHER ORDERED that defendant's motion for reconsideration or certification pursuant to 28 U.S.C. § 1292(b) of the order denying summary judgment on patent infringement and antitrust claims (Doc. # 583) is granted in part and denied in part.

Dated this 8th day of April, 1997, at Kansas City, Kansas.

/s/
EARL E. O'CONNOR
United States District Judge

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consideration of the merits of these defenses until CSU's pending motion for sanctions is decided.

APPENDIX F

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF KANSAS

IN RE: INDEPENDENT SERVICE ORGANIZATIONS ANTITRUST LITIGATION	)	CIVIL ACTION
This Document Applies To:	)	No. MDL-1021
CSU Holdings, Inc., et al. v. Xerox Corp. (D. Kan. No. 94-2102-EEO)	)	

MEMORANDUM AND ORDER

This matter is before the court on defendant's motion for summary judgment on its copyright infringement and conversion counterclaims (Doc. #374) and plaintiff's cross-motion for summary judgment on Xerox's copyright infringement and conversion counterclaims (Doc. #441). After careful consideration of the parties' briefs and evidentiary material, the court is prepared to rule. For the reasons set forth below, both motions are denied.

Xerox moves for summary judgment on its copyright infringement counterclaims arguing that (1) CSU has infringed on Xerox's copyrights for diagnostic software and service manuals, and (2) CSU's defenses are insufficient as a matter of law. CSU has filed a cross-motion for summary judgment on Xerox's copyright infringement counterclaims, arguing that (1) Xerox has not established that its diagnostic software and service manuals are protected material under the copyright laws, and (2) Xerox's copyright infringement claims are barred by its misuse, statute of limitations, and laches defenses.

Factual Background

Xerox publishes operator and service manuals for use by those who service its copiers and printers. Xerox is the owner of the copyrights for these manuals and has registered a large number of these copyrights pursuant to the Copyright Act. Xerox also has developed diagnostic software to detect and repair machine failures on the Xerox model 5090 copier. The Xerox 5390 copier is an upgraded version of the 5090 copier and can use the same software as the 5090. The 5090 diagnostic software is published by Xerox on a set of floppy disks called "software upgrade disks." At the time a new 5090 copier is installed at a customer's site, the software upgrade disks are used to install the diagnostic software on a hard disk located inside the 5090 copier. Software upgrade disks are also used to install improved versions of Xerox diagnostic software.

Xerox laser printers, including the models 4050, 4090, and 4650, also utilize diagnostic software. This software is distributed by Xerox on floppy disks or on magnetic tapes. At the time the laser printer is installed, these disks or tapes are used to load the diagnostic software onto the printer's hard disk. Xerox is the owner of the copyrights in all versions of the software for the Xerox 5090 copier. The copyrights for upgrade levels K, L, and M of the 5090 software have been registered pursuant to the Copyright Act. Xerox also is the owner of the copyrights for all versions of the diagnostic software for the 4050, 4090, and 4650 printers. The copyright for version 3.5 of the software has been registered pursuant to the Copyright Act.

CSU has produced evidence of Xerox's parts policy and Xerox's alleged efforts to restrict ISO access to Xerox patented and copyrighted products in an effort to drive ISOs out of the copier and printer service markets. This evidence is nearly identical to the evidence CSU presented regarding Xerox's motion for summary judgment on patent infringe-

ment, described in this court's March 19, 1997, Memorandum and Order. With respect to copyrighted software specifically, CSU has presented evidence that prior to 1991 Xerox sold its equipment with diagnostic and operating software already installed. Later, Xerox attempted to unbundle its diagnostic and operating software and enforce its separate intellectual property rights in diagnostic software in what CSU characterizes as a tool to defeat ISO competition.

Summary Judgment Standards

Summary judgment is appropriate "if the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law." Fed. R. Civ. P. 56(c); *accord Anderson v. Liberty Lobby. Inc.*, 477 U.S. 242, 247 (1986); *Vitkus v. Beatrice Co.*, 11 F.3d 1535, 1538-39 (10th Cir. 1993). A factual dispute is "material" only if it "might affect the outcome of the suit under the governing law." *Anderson*, 477 U.S. at 248.

The moving party bears the initial burden of showing that there is an absence of any genuine issue of material fact. *Celotex Corp. v. Catrett*, 477 U.S. 317, 323 (1986); *Hicks v. City of Watonga*, 942 F.2d 737, 743 (10th Cir. 1991). Essentially, the inquiry as to whether an issue is genuine is "whether the evidence presents a sufficient disagreement to require submission to the jury or whether it is so one-sided that one party must prevail as a matter of law." *Anderson*, 477 U.S. at 251-52. An issue of fact is genuine if the evidence is sufficient for a reasonable jury to return a verdict for the nonmoving party. *Id.* at 248. This inquiry necessarily implicates the substantive evidentiary standard of proof that would apply at trial. *Id.* at 252.

Once the moving party meets its burden, the burden shifts to the nonmoving party to demonstrate that genuine issues remain for trial "as to those dispositive matters for which it

carries the burden of proof." *Applied Genetics Int'l, Inc. v. First Affiliated Sec., Inc.*, 912 F.2d 1238, 1241 (10th Cir. 1990); *see also Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 586-87 (1986); *Bacchus Indus., Inc. v. Arvin Indus., Inc.*, 939 F.2d 887, 891 (10th Cir. 1991). The nonmoving party may not rest on his pleadings but must set forth specific facts. *Applied Genetics*, 912 F.2d at 1241.

"[W]e must view the record in the light most favorable to the parties opposing the motion for summary judgment." *Deepwater Invs., Ltd. v. Jackson Hole Ski Corp.*, 938 F.2d 1105, 1110 (10th Cir. 1991). "In a response to a motion for summary judgment, a party cannot rely on ignorance of facts, on speculation, or on suspicion, and may not escape summary judgment in the mere hope that something will turn up at trial." *Conaway v. Smith*, 853 F.2d 789, 793 (10th Cir. 1988). The mere existence of some alleged factual dispute between the parties will not defeat an otherwise properly supported motion for summary judgment. *Anderson*, 477 U.S. at 256. Where the nonmoving party fails to properly respond to the motion for summary judgment, the facts as set forth by the moving party are deemed admitted for purposes of the summary judgment motion. D. Kan. Rule 56.1.

Analysis

I. Xerox's Affirmative Case Of Copyright Infringement.

Xerox asserts in its counterclaims that CSU has infringed on its copyrights for diagnostic software (count II) and manuals (count V). Both CSU and Xerox have filed motions for summary judgment on Xerox's copyright infringement counterclaims. To prevail on its claim of copyright infringement, Xerox must establish (1) ownership of a valid copyright and (2) copying by CSU of protected components of the copyrighted material. *Gates Rubber Co. v. Bando Chem. Indus., Ltd.*, 9 F.3d 823, 831 (10th Cir. 1993) (citing *Feist Publications, Inc. v. Rural Tel. Serv. Co., Inc.*, 499 U.S. 340, 361 (1991), and *Autoskill, Inc. v. National Educ. Sup-*

port Sys., Inc., 994 F.2d 1476, 1487 (10th Cir.), *cert. denied*, 510 U.S. 916 (1993)).

A. Xerox's Registration Of Its Copyrights.

Registration of a copyright is a prerequisite to the filing of an infringement action. *See* 17 U.S.C. § 411(a) ("no action for infringement of the copyright of any work shall be instituted until registration of the copyright claim has been made"); *see also M.G.B. Homes, Inc. v. American Homes, Inc.*, 903 F.2d 1486, 1488 (11th Cir. 1990) (registration is a jurisdictional prerequisite). The copyright registrations at issue pertain to "derivative works." A "derivative work" is defined as "a work based upon one or more preexisting works" to which original materials are newly added. 17 U.S.C. § 101. The copyright statute provides that

> [t]he copyright in a compilation or derivative work extends only to the material contributed by the author of such work, as distinguished from the preexisting material employed in the work, and does not imply any exclusive right in the preexisting material. The copyright in such work is independent of, and does not affect or enlarge the scope, duration, ownership, or subsistence of, any copyright protection in the preexisting material.

17 U.S.C. § 103(b). The copyright statute does not address directly the distinction between preexisting material from other authors and preexisting material from the author of the derivative work. The leading commentator on copyright law and courts which have addressed this issue have stated that an owner of a registered copyright in a derivative work does not have to register separately the preexisting work before bringing an infringement action based on the derivative work. *See Computer Assocs. Int'l, Inc. v. V. Altai, Inc.*, 775 F. Supp. 544, 555-57 (E.D.N.Y. 1991), *aff'd in part and vacated in part on other grounds*, 982 F.2d 693 (2d Cir. 1992); 2 Melville B. Nimmer & David Nimmer, *Nimmer On Copyright*, § 7.16[b][2] at 7-169, 7-170 (1996) (hereinafter

"*Nimmer on Copyright*"). The court finds that this result is consistent with the principles of the Copyright Act. First, Xerox is the author of the preexisting works and, therefore, copyright protection was extended as soon as the versions of the software and manuals were "fixed in any tangible medium of expression" without regard to registration. *See* 17 U.S.C. § 102; *Altai*, 775 F. Supp. at 556. Second, the Copyright Act does not require separate registration of each and every component part of a copyrighted work particularly where the author of the derivative work is the uncontested author of each of the component parts. *See id.*

CSU maintains that Xerox is barred from bringing its copyright infringement counterclaims because Xerox has not come forward with the registrations covering the preexisting materials from which the registered upgrades were derived. As noted above, Xerox does not have to produce registrations of the preexisting works if it is the owner of those works. Xerox has presented the copyright certificates of registration, which state that Xerox is the author of the entire work. The copyright registrations are *prima facie* evidence of the validity of this fact. *See* 17 U.S.C. § 410(c); *Novelty Textile Mills, Inc. v. Joan Fabrics Corp.*, 558 F.2d 1090, 1092 n.1 (2d Cir. 1977). CSU has not offered any evidence to the contrary. Xerox's registration of the derivative works is sufficient to allow an infringement claim based on copying of material, either newly added or contained in the underlying work. *See Altai*, 775 F. Supp. at 555-57; *Howard v. Sterchi*, 725 F. Supp. 1572, 1574 (N.D. Ga. 1989) ("Perhaps a prudent author might obtain independent registrations for her derivative works in addition to a registration for the compilation containing them, but such a requirement is not mandated by the Act."), *aff'd*, 974 F.2d 1272 (11th Cir. 1992); *Richmond Homes Mgmt., Inc. v. Raintree, Inc.*, 862 F. Supp. 1517, 1525 (W.D. Va. 1994) ("Where the same creator owns both the original and derivative copyrights, the only sound interpretation of the Copyright Act is that the derivative work carries

forward all preexisting copyrights in the original work."), *aff'd in part and vacated in part on other grounds*, 66 F.3d 316 (4th Cir. 1995) (reversing because plaintiff presented insufficient evidence to establish ownership of the preexisting copyright); 2 *Nimmer On Copyright* § 7.16[b][2] at 7-169 (1996). Thus, the court finds that Xerox has met the jurisdictional prerequisites to its copyright infringement claim against CSU.

B. Xerox's Ownership Of Valid Copyrights.

CSU contends that Xerox has failed to prove that its diagnostic software and manuals contain materials that are protected by copyright law.

Section 410(c) of the copyright statute provides that certificates of registration constitute prima facie evidence that the copyrights are valid. *See* 17 U.S.C. § 410(c); *Autoskill*, 994 F.2d at 1487. This section creates a rebuttable presumption of the copyright holder's originality and that the subject matter of the work is copyrightable. *See Harris Mkt. Research v. Marshall Mktg. & Communications. Inc.*, 948 F.2d 1518, 1525 (10th Cir. 1991) ("Evidence of the certificate [of copyright registration] shifted the burden of proof to [the alleged infringer] to dispute the validity of the copyright."); *Donald Frederick Evans & Assocs., Inc. v. Continental Homes, Inc.*, 785 F.2d 897, 903 (11th Cir. 1986) (copyright registration certificate constitutes prima facie evidence on the issues of originality and protectable material); 3 *Nimmer on Copyright* § 13.01[A] at 13-7 (same).

CSU attempts to rebut the presumption of the validity of Xerox's copyrights by arguing that many of the materials contained in the registered copyrights likely are unprotected under the copyright laws. In particular, CSU claims that Xerox's copyrights likely contain unprotected elements such as processes, facts, public domain material, merger material, and *scenes a faire* material. *See Gates*, 9 F.3d at 838, 17 U.S.C. § 102(b). CSU simply has offered no evidence to

support its assertions and, therefore, has failed to rebut the statutory presumption of copyright validity. *See Eisenman Chem. Co. v. NL Indus., Inc.*, 595 F. Supp. 141, 146-47 (D.C. Nev. 1984) (granting summary judgment on infringement claim because "[a]lthough [the defendant] has urged that the [manual] lacks the requisite originality to be copyrightable, it has not shown that it could produce at trial substantial evidence in support of its position."); 3 *Nimmer On Copyright* § 12.11[b][1] at 12-166 (1996) ("Mere denial by the defendant unsupported by evidence is not sufficient to overcome the *prima facie* presumption of plaintiff's originality."); *see also Harris*, 948 F.2d at 1525 (affirming jury verdict of infringement based on presumption of copyright validity and lack of evidence presented by alleged infringer, "in particular expert testimony and analysis, to demonstrate invalidity of the copyright."). Thus, the court finds that Xerox owns valid copyrights for its software for the 5090 copier, and 4050, 4090, and 4650 printers, and that these copyrights contain material protected under the copyright laws.

C. Authorized Copying Of Computer Programs.

CSU claims that it is entitled to summary judgment on Count II of Xerox's counterclaim because Xerox cannot preclude the use of its software in the operation or service of its machines. This court previously found that "transferring a computer program from a storage device to a computer's RAM constitutes a copy for purposes of copyright law." *In re Indep. Serv. Orgs. Antitrust Litig.*, 910 F. Supp. 1537, 1541 (D. Kan. 1995). The copyright statute provides that

> [i]t is not an infringement for the owner of a copy of a computer program to make or authorize the making of another copy or adaptation of that computer program provided: (1) that such a new copy or adaptation is created as an essential step in the utilization of the computer program in conjunction with a machine and that it is used in no other manner . . ..

17 U.S.C. § 117(a). The legislative history of this provision is as follows:

> Because the placement of a work into a computer is the preparation of a copy, the law should provide that persons in rightful possession of copies of programs be able to use them freely without fear of exposure to copyright liability. Obviously, creators, lessors, licensors, and vendors of copies of programs intend that they be used by their customers, so that rightful users would but rarely need a legal shield against potential copyright problems. It is easy to imagine, however, a situation in which the copyright owner might desire, for good reason or none at all, to force a lawful owner or possessor of a copy to stop using a particular program. One who rightfully possesses a copy of a program, therefore, should be provided with a legal right to copy it to that extent which will permit its use by that possessor.

Final Report of the National Commission on New Technological Uses of Copyrighted Works, 13 (1978) (emphasis added); *see* H.R. Rep. No. 96-1307, Part I, 96th Cong. 2d Sess. 23 (1980); *Apple Computer, Inc. v. Franklin Computer Corp.*, 714 F.2d 1240, 1252 (3d Cir. 1983) (considers CONTU Report "as accepted by Congress since Congress wrote into law the majority's recommendations almost verbatim"); 2 *Nimmer on Copyright* § 8.08[B][1] at 8-115 (1996).

In order to take advantage of the above exception to the copyright laws, CSU must establish that (1) it was in "rightful possession" of Xerox's diagnostic software and (2) its copying of Xerox's diagnostic software was an "essential step" to the use of the software. As to the first element, CSU bears the burden of establishing it had rightful possession of the diagnostic software. *See American Int'l Pictures, Inc. v. Foreman*, 576 F.2d 661, 665 (5th Cir. 1978) ("[B]ecause copyright law favors the rights of the copyright holder, the person claiming authority to copy or vend generally must

show that his authority to do so flows from the copyright holder."); *Allen-Myland v. International Bus. Machs. Corp.*, 746 F. Supp. 520, 535-36 (E.D. Pa. 1990) (the alleged infringer bears the burden of establishing that section 117 applies). As to the second element, the only copying by CSU which could be termed an "essential step to use" is CSU's reproduction of diagnostic software from a lawfully obtained disk into the RAM of the copier or printer. CSU's copying and distribution of floppy disks containing Xerox's diagnostic software is not within the scope of the limited exception of section 117. *See ISC-Bunker Ramo Corp. v. Altech, Inc.*, 765 F. Supp. 1310, 1332 (N.D .Ill. 1990) (making multiple copies and using that software on other people's machines falls outside the scope of section 117); *Allen-Myland*, 746 F. Supp. at 536 (making copies to accumulate a back-up library or making copies for reconfigured systems is beyond the scope of section 117).

Xerox loaded operator and diagnostic software on the 5090 copier and 4050/4090 printers before 1992 to those customers who purchased the equipment. CSU contends that it is a lawful owner of Xerox's software as a subsequent purchaser of the equipment. If CSU was in lawful possession of the software, then its copying from the lawfully obtained disk into the RAM of the copier or printer may be protected under section 117. CSU claims that at least some of the 5090s, 4050s, and 4090s, which it services now, were sold initially by Xerox before 1992 and, therefore, CSU obtained the software from a lawful owner. On the other hand, Xerox has presented evidence that CSU has obtained copyrighted software upgrade disks from unlicensed sources by obtaining such disks from current and former Xerox service technicians, as well as other unauthorized sources. The parties have presented conflicting evidence regarding whether these various sources were in lawful possession of the software disks. Given the disputed factual record, the court cannot find as a matter of law for either party regarding whether

CSU's copying of diagnostic software from a lawfully obtained disk into the RAM of the copier or printer was authorized by statute.

D. CSU's Copying Of Xerox's Copyrighted Materials.

As noted above, Xerox has established that it has valid copyrights and that the material contained in the registrations is protected under the copyright laws. Although CSU claims that some of its copying of Xerox's diagnostic software was authorized, see section I.C., *supra*, CSU has not offered any evidence to rebut Xerox's evidence that CSU copied Xerox's diagnostic software (contained on floppy disks) onto other floppy disks and onto the hard disk of 5090s, 4050s, and 4090s, both when CSU provided software upgrades to its customers and as part of CSU's refurbishment process.

CSU effectively has admitted that it copied verbatim Xerox's diagnostic software and manuals. Given that CSU copied Xerox's entire copyrighted works, the court finds that protected materials under the Copyright Act necessarily were copied. *See Triad Sys. Corp. v. Southeastern Express Co.*, 64 F.3d 1330, 1335 (9th Cir. 1995) ("Because Southeastern's service activities involved copying entire programs, there is no doubt that protected elements of the software were copied."), *cert. denied*, 116 S.Ct. 1015 (1996); *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 825 F. Supp. 340, 355-56 (D. Mass. 1993) (no analysis of the source code to determine copyright validity was necessary where defendant did not rebut the evidence of copyright validity and copied the entire copyrighted work), *aff'd*, 36 F.3d 1147 (1st Cir. 1994).

Pursuant to Rule 56(d) of the Federal Rules of Civil Procedure, the court finds that the following facts exist without substantial controversy and thus will be deemed established at trial of this action:

> CSU has infringed Xerox's valid registered copyrights for its operator and service manuals, its diagnostic software for the 5090 copier, and its diagnostic software for the 4050, 4090, and 4650 printers.

The above factual findings are subject to CSU's defenses to be presented at trial.

II. Xerox's Conversion Counterclaim.

Both CSU and Xerox have moved for summary judgment on Xerox's conversion counterclaim regarding Xerox's software and manuals. Conversion is established by showing an "unauthorized assumption or exercise of the right of ownership over goods or personal chattels belonging to another." *Moore v. State Bank of Burden*, 240 Kan. 382, 386, 729 P.2d 1205, 1210 (1986), *cert. denied*, 482 U.S. 906 (1987). Use of property belonging to another is the "exercise of the right of ownership." *Horne v. Oller*, 5 Kan. App. 2d 263, 267, 615 P.2d 791, 794 (1980) (citation omitted). If the "possession of property is lawful at the outset, conversion can only occur when the possessor refuses an owner's demand for return of the property." *Judson Bldg. Co. v. First Nat'l Bank of Longview*, 587 F. Supp. 852, 856 (E.D. Tex. 1984) (citing *Norris v. Bovina Feeders, Inc.*, 492 F.2d 502 (5th Cir. 1974)).

As noted above, with respect to Xerox's copyright infringement claim, neither party has presented sufficient evidence to establish whether CSU's possession of Xerox's copyrighted software upgrade disks was lawful at the outset. The parties also have presented conflicting evidence regarding whether CSU was in lawful possession of Xerox's service manuals. These factual disputes are closely intertwined with the factual dispute of when Xerox demanded return of its software disks and service manuals. Given these disputed factual issues, the court will deny both parties' motions for summary judgment on Xerox's conversion counterclaim.

III. CSU's Copyright Misuse Affirmative Defense.

CSU claims that Xerox misused its copyrights by attempting to use its copyrights for certain copier and printer parts to create or maintain a monopoly in the copier and printer service market. In particular, CSU claims that Xerox has attempted to suppress competition in the service market by (1) refusing to license its copyrighted products to ISOs or setting the license fee at an unreasonably high price, (2) using unreasonable and anticompetitive license terms for its copyrighted software, and (3) using its assertion of intellectual property rights, including its counterclaim for copyright infringement in the instant action. These allegations mirror in large part CSU's defense of patent misuse. The court accordingly incorporates by reference its discussion of CSU's patent misuse affirmative defense and antitrust claims in the court's March 19, 1997, Memorandum and Order.

Although the Supreme Court has not explicitly addressed the issue, a number of courts have recognized a copyright misuse defense. *See, e.g., DSC Communications Corp. v. DGI Techs., Inc.*, 81 F.3d 597, 601 (5th Cir. 1996) (concurring in the Fourth Circuit's characterization of the copyright misuse defense); *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1187 (1st Cir. 1994); *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970, 973-77 (4th Cir. 1990). Very few courts, however, have found that the copyright misuse defense could be sustained on the facts of the particular case. *See PRC Realty Sys. v. National Assoc. of Realtors*, 972 F.2d 341, 1992 WL 183682 at *11-12 (4th Cir. 1992) (finding misuse); *Lasercomb*, 911 F.2d at 977-79 (same); *Tamburo v. Calvin*, 1995 WL 121539 at *7, No. 94-C-5206 (N.D. Ill. Mar. 17, 1995) (same); *Qad. Inc. v. ALN Assocs., Inc.*, 770 F. Supp. 1261, 1267-71 (N.D. Ill. 1991) (same), *aff'd*, 974 F.2d 834 (7th Cir. 1992).

The Tenth Circuit has not addressed directly whether a copyright misuse defense exists. In *Edward B. Marks Music*

Corp. v. Colorado Magnetics, Inc., 497 F.2d 285, 290 (10th Cir. 1974), *cert. denied*, 419 U.S. 1120 (1975), the court assumed "arguendo that an antitrust violation is a defense in a copyright infringement action," but found that the facts of that case did not support a finding of an antitrust violation. In *Rural Tel. Serv. Co., Inc. v. Feist Publications, Inc.*, 663 F. Supp. 214, 220 (D. Kan. 1987), Judge Rogers of this court found that "antitrust violations do not constitute a defense to copyright infringement." The Tenth Circuit affirmed without a published opinion. 916 F.2d 718 (10th Cir. 1990). The Supreme Court reversed on other grounds. 499 U.S. 340 (1991). Given the significant development in the law regarding copyright misuse since the time of the district court's opinion in *Feist*, this court finds that the case has little precedential value.

We recognize that the rationale and policies behind the patent misuse defense apply for the most part to the copyright misuse defense. *See Atari*, 975 F.2d at 846; *Lasercomb*, 911 F.2d at 976 (citing *United States v. Loew's, Inc.*, 371 U.S. 38, 44-51 (1962) and *United States v. Paramount Pictures, Inc.*, 334 U.S. 131. 157-59 (1948)). Xerox does not contest the general proposition that a copyright misuse defense exists. We are of the view that such a defense is viable based primarily on the similar policies behind the patent and copyright laws. An alleged infringer can establish copyright misuse by showing either that (1) the defendant violated the antitrust laws, or (2) the defendant illegally extended its monopoly beyond the scope of the copyright or violated the public policies underlying the copyright laws. *See Lasercomb*, 911 F.2d at 978; *Broadcast Music, Inc. v. Hampton Beach Casino Ballroom*, No. 94-248-B, 1995 WL 803576, at *5 (D.N.H. 1995).

Xerox contends that its actions cannot constitute misuse as a matter of law because it has an absolute right to refuse to license or sell its copyrighted works to its competitors, regardless of its intent or the competitive effect on any

market. The crux of CSU's misuse defense, however, is that Xerox has unlawfully extended the scope of its copyrights beyond their intended scope to erect an artificial barrier to entry in the service market. *See Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 479 n. 29 (1992) (an inherent monopoly such as those created by patents and copyrights may not be used to leverage the monopolist's power in order to acquire monopoly power in a *separate* market); *see also Image Technical Servs., Inc. v. Eastman Kodak Co.*, 903 F.2d 612, 620 (9th Cir. 1990) (A monopolist may not refuse to deal with a competitor in an attempt to impede competition or deny an essential facility to a customer who is also a competitor, absent legitimate business justifications). The two critical factual issues for resolving CSU's misuse defense are the scope of Xerox's copyrights and whether there are separate markets for parts and service. Xerox has not established that its patents and copyrights for parts, diagnostic software, and manuals allow Xerox to exclude competitors in the service market.[1] On the other hand, CSU has presented sufficient evidence at this point to establish that there are separate markets for parts (including diagnostic software) and service and that service of copiers and printers was not within the scope of Xerox's copyrights.

The court finds that CSU's factual support for its copyright misuse defense is sufficient to withstand Xerox's motion for summary judgment. In addition to Xerox's conduct discussed with respect to CSU's patent misuse defense, CSU has presented evidence that Xerox unbundled its diagnostic software from its operating system software and refused to license diagnostic software to ISOs specifically as a tool to

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[1] This court previously recognized that Xerox's contention that its patents and copyrights necessarily extend to the copier and printer service market cannot be precluded as a matter of law. *See* March 19, 1997 Memorandum and Order at 16 n. 4; March 12, 1997 Memorandum and Order regarding CSU's motion for summary judgment on Xerox's free riding defense at 5-7.

defeat ISO competition in the copier and printer service market. Assuming that there are separate markets for parts and service and that the scope of Xerox's copyrights was for the parts market only, there is sufficient evidence for a jury to find that Xerox misused it copyrights by expanding the scope of its copyrights beyond the parts market into the service market. The court accordingly denies the parties' cross-motions for summary judgment.

IV. CSU's Statute of Limitations And Laches Defenses.

Xerox filed its copyright infringement counterclaims relating to 5090 software in November of 1994, and its infringement counterclaims relating to manuals and 4050/4090 software in October of 1995.[2] Xerox seeks to recover damages for CSU's copying of manuals and 4050/4090 software before October 1992. Xerox claims that it is entitled to seek damages before October 1992 because (1) CSU's infringement of Xerox's copyrighted manuals and 4050/4090 software was a continuing wrong and thus the statute of limitations did not begin to run until the wrong was over and done with, and (2) Xerox was not on actual or inquiry notice of CSU's infringement of manuals or 4050/4090 software until shortly before it filed its infringement counterclaims in the instant action.[3].

A civil action for copyright infringement must be "commenced within three years after the claim accrued."

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[2] CSU apparently concedes that Xerox's claims for infringement of its copyrights in 5090 diagnostic software are not barred by the statute of limitations. CSU did not start servicing 5090 copiers until April or October 1992, less than three years before Xerox filed its infringement counterclaim relating to 5090 software.

[3] CSU also claims that Xerox should be estopped from denying its laches and statute of limitations defenses because of Xerox's discovery conduct. The court will consider this issue with respect to CSU's motion for imposition of discovery sanctions against Xerox filed March 13, 1997.

17 U.S.C. § 507(b). As a general rule, "[i]n a case of continuing copyright infringements an action may be brought for all acts which accrued within the three years preceding the filing of the suit." *Hoey v. Dexel Sys. Corp.*, 716 F. Supp. 222, 223 (E.D. Va. 1989).

Xerox has not established that the continuing infringement theory is applicable to the facts of this case. In *Taylor v. Meirick*, 712 F.2d 1112 (7th Cir. 1983), the court held that when the final act of a continuing wrong occurs within the three-year statutory period, the plaintiff could sue for damages for the entire duration of the alleged violation. *Id.* at 1119. In *Taylor*, the court found that the defendant's copying of plaintiff's maps and later sales of the infringing copies by the defendant and his dealers was a "continuing wrong." *Id.* Based on the present factual record, we are not convinced that the continuing wrong theory is applicable in this case.

Courts generally have not extended the continuing wrong theory beyond the facts of *Taylor* and, in many cases, rejected the theory as a matter of law in the copyright infringement context. *See Daboub v. Gibbons*, 42 F.3d 285, 291 (5th Cir. 1995); *Roley v. New World Pictures, Ltd.*, 19 F.3d 479, 480-81 (9th Cir. 1994); *Kregos v. Associated Press*, 3 F.3d 656, 662 (2d Cir. 1993), *cert. denied*, 510 U.S. 1112 (1994); *Hoste v. Radio Corp. of Am.*, 654 F.2d 11, 11 (6th Cir. 1981); *Hoey*, 716 F. Supp. at 223; *see also* 3 *Nimmer On Copyright* § 12.05 at 12-110 ("The prevailing view is therefore that the statute of limitations bars recovery on any damage claim that accrued over three years prior to filing of suit.").

Xerox also seeks to toll the statute of limitations until it actually discovered or reasonably should have discovered CSU's infringement of its copyrights. *See Industrial Constructors Corp. v. United States Bureau of Reclamation*, 15 F.3d 963, 969 (10th Cir. 1994); *Stone v. Williams*, 970 F.2d 1043, 1048 (2d Cir. 1992), *cert. denied*, 508 U.S. 906 (1993).

CSU has presented evidence that Xerox was on inquiry notice of CSU's infringement of the diagnostic software for the 4050 and 4090 printers by 1991. CSU also claims that Xerox was on inquiry notice of CSU's infringement of Xerox manuals by April 1989, when Xerox cut off CSU's supply of service documentation. On the other hand, Xerox has presented evidence that it did not know of CSU's copying of diagnostic software or manuals until shortly before it filed its infringement counterclaims in the instant action. Based on the disputed factual record of when Xerox knew or reasonably should have known of CSU's copying of diagnostic software and manuals, CSU's motion for summary judgment is denied.

CSU also claims that Xerox's infringement counterclaims are barred as a matter of law by the doctrine of laches. To establish its defense of laches, CSU must establish that (1) Xerox inexcusably delayed in instituting its infringement counterclaims and (2) CSU was prejudiced by Xerox's delay. *Brunswick Corp. v. Spinit Reel Co.*, 832 F.2d 513, 523 (10th Cir. 1987). As noted above, there are genuine issues of material fact as to when Xerox knew or should have known of CSU's copying of diagnostic software and service manuals. The court accordingly cannot decide CSU's laches defense as a matter of law.

IT IS THEREFORE ORDERED that defendant's motion for summary judgment on its copyright infringement and conversion counterclaims (Doc. # 374) is denied.

IT IS FURTHER ORDERED that plaintiff's cross-motion for summary judgment on Xerox's copyright infringement and conversion counterclaims (Doc. # 441) is denied.

Dated this 21st day of March, 1997, at Kansas City, Kansas.

/s/
EARL E. O'CONNOR
United States District Judge

APPENDIX G

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF KANSAS

IN RE: INDEPENDENT SERVICE ORGANIZATIONS ANTITRUST LITIGATION	)	CIVIL ACTION
This Document Applies To:	)	No. MDL-1021
CSU Holdings, Inc., et al. v. Xerox Corp. (D. Kan. No. 94-2102-EEO)	)	

MEMORANDUM AND ORDER

This matter is before the court on defendant's motion for summary judgment on its willful patent infringement counterclaims (Doc. #362) and defendant's motion for summary judgment on plaintiffs' antitrust claims (Doc. #410). After careful consideration of the parties' briefs and oral argument on defendant's motion for summary judgment on plaintiffs' antitrust claims, the court is prepared to rule. For the reasons set forth below, both motions are denied.

Summary Judgment Standards

Summary judgment is appropriate "if the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law." Fed. R. Civ. P. 56(c); *accord Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 247 (1986); *Vitkus v. Beatrice Co.*, 11 F.3d 1535, 1538-39 (10th Cir. 1993). A factual dispute is "material" only if it "might affect the outcome of the suit under the governing law." *Anderson*, 477 U.S. at 248.

The moving party bears the initial burden of showing that there is an absence of any genuine issue of material fact. *Celotex Corp. v. Catrett*, 477 U.S. 317, 323 (1986); *Hicks v. City of Watonga*, 942 F.2d 737, 743 (10th Cir. 1991). Essentially, the inquiry as to whether an issue is genuine is "whether the evidence presents a sufficient disagreement to require submission to the jury or whether it is so one-sided that one party must prevail as a matter of law." *Anderson*, 477 U.S. at 251-52. An issue of fact is genuine if the evidence is sufficient for a reasonable jury to return a verdict for the nonmoving party. *Id.* at 248. This inquiry necessarily implicates the substantive evidentiary standard of proof that would apply at trial. *Id.* at 252.

Once the moving party meets its burden, the burden shifts to the nonmoving party to demonstrate that genuine issues remain for trial "as to those dispositive matters for which it carries the burden of proof." *Applied Genetics Int'l, Inc. v. First Affiliated Securities, Inc.*, 912 F.2d 1238, 1241 (10th Cir. 1990); *see also Matsushita Elec. Indus., Co. v. Zenith Radio Corp.*, 475 U.S. 574, 586-87 (1986); *Bacchus Indus., Inc. v. Arvin Indus., Inc.*, 939 F.2d 887, 891 (10th Cir. 1991). The nonmoving party may not rest on his pleadings but must set forth specific facts. *Applied Genetics*, 912 F.2d at 1241.

"[W]e must view the record in the light most favorable to the parties opposing the motion for summary judgment." *Deepwater Invs., Ltd. v. Jackson Hole Ski Corp.*, 938 F.2d 1105, 1110 (10th Cir. 1991). "In a response to a motion for summary judgment, a party cannot rely on ignorance of facts, on speculation, or on suspicion, and may not escape summary judgment in the mere hope that something will turn up at trial." *Conaway v. Smith*, 853 F.2d 789, 793 (10th Cir. 1988). The mere existence of some alleged factual dispute between the parties will not defeat an otherwise properly supported motion for summary judgment. *Anderson*, 477 U.S. at 256. Where the nonmoving party fails to properly respond to the motion for summary judgment, the facts as set

forth by the moving party are deemed admitted for purposes of the summary judgment motion. D. Kan. Rule 56.1.

Analysis

I. Defendant's Patent Infringement Counterclaims.

Defendant contends that it is entitled to summary judgment on its willful patent infringement counterclaims because (1) plaintiff has infringed on Xerox's patents for certain copier and printer replacement parts and (2) plaintiff's affirmative defenses to defendant's patent infringement counterclaims are invalid as a matter of law.

A. Factual Background.

Among the patents asserted by Xerox in its patent infringement counterclaim against CSU are several key copier and printer replacement parts, including fuser heat and pressure rolls, dicorotrons, and document handler belts. CSU often replaces these parts during the service and refurbishment of copiers and printers. In discovery, Xerox sought the production by CSU of representative copier and printer parts that CSU purchased from vendors other than Xerox. CSU produced seven parts, which are the subject of this motion. Each of the parts produced by CSU infringes Xerox's patents either literally or under the doctrine of equivalents.

The remaining facts presented in this section are uncontroverted by Xerox for purposes of this motion only.[1] In 1984, Xerox developed its first "parts policy," in which it declared it would not sell "parts which are unique to the '10' Series products in memory writers" to any Independent Service

[1] Xerox claims that many of these facts are irrelevant to the instant motion because (1) Xerox has a lawful right to refuse to license or sell its patented parts and (2) some of the facts do not pertain specifically to the patents at issue in this motion. The court has resolved both issues against Xerox, *see infra* section I.C., and therefore finds that the facts outlined in this section are relevant to the instant motion.

Organization ("ISO") unless the ISO also was an end-user of the product. In January 1987, the parts policy was expanded to apply to newer "9" Series models and all "10" Series copiers, plus all new Xerox products introduced after the effective date of the policy.

Xerox did not enforce its parts policy until early 1989. At that time, Xerox representatives decided that the only way to stop the competitive threat posed by ISOs, such as CSU, was to cut off the parts availability to these parties. In January 1989, Xerox tightened enforcement of its existing policies and cut off CSU's direct purchase of restricted parts from Xerox. Xerox also implemented an "on-site end-user verification" procedure when certain ISOs or their customers ordered parts from Xerox. The policy, which was implemented in June 1989, initially applied solely to the six most successful ISOs, including CSU.

As a result of Xerox's parts policies, CSU did not have an assured source of supply of parts necessary to service Xerox copiers and printers. CSU used parts cannibalized from used Xerox equipment, parts obtained from other ISOs, and parts purchased through a limited number of customers. CSU also obtained parts from Rank Xerox, a majority-owned European affiliate of Xerox, for approximately one year until Xerox forced Rank Xerox to stop selling parts to CSU and other ISOs.

CSU claims that Xerox also decided to use its intellectual property rights as a weapon to defeat ISO competition. Xerox made its legal counsel an integral part of this corporate strategy. CSU claims that Xerox used its legal counsel to threaten and/or bring patent and copyright infringement suits against ISO competitors.

In 1994, Xerox settled an antitrust lawsuit brought by a class of ISOs in the United States District Court for the Eastern District of Texas (the "*R&D* Litigation"). CSU opted out of the *R&D* settlement on the same day it filed the instant

action against Xerox. Pursuant to the *R&D* settlement, Xerox agreed to suspend its restrictive parts policy for a period of six and one-half years. The settlement also compelled Xerox to license diagnostic software, an essential component for service, for four and one-half years.

After the *R&D* settlement, Xerox intensified its efforts to use price as a weapon to defeat ISO competition in the service market. Xerox knew that if it must sell parts and licensed software to ISOs, it could achieve the same effect as not selling the product by charging exorbitant prices for those products. Xerox intentionally set the prices of its patented parts at high levels to act as a weapon against ISOs and to maintain Xerox's monopoly of the service market.

Xerox charges ISOs markups of as much as 2,000% or more on its parts. Xerox does not charge its customers who also service their own machines ("self- servicers") the same parts prices it charges ISOs. For example, ISOs are charged approximately four times as much as self-servicers for some parts.

Xerox explicitly set the price of its patented parts, not to recoup its development costs, but to force ISOs to raise the prices they charge customers. Xerox's goal of its pricing strategy was to eliminate ISO competition and capture 100% of the service market. Xerox used its control over the prices of parts and diagnostic software to exclude ISOs in the service market or to maintain its supra-competitive prices over its parts.

B. Xerox's Affirmative Case of Patent Infringement.

As noted above, Xerox has presented evidence that CSU has infringed Xerox's patents either literally or under the doctrine of equivalents. CSU conceded in its opposition brief that "Xerox has lawful patents" and that "CSU's use of certain parts constitutes a form of facial infringement." CSU confirmed at the pretrial hearing on March 13, 1997, that it

did not contest that CSU's use of certain parts constitutes infringement of Xerox's patents. In addition, CSU has offered no evidence to refute the evidence of infringement presented by Xerox in support of its summary judgment motion.

Pursuant to Rule 56(d) of the Federal Rules of Civil Procedure, the court finds that the following facts exist without substantial controversy and thus will be deemed established at trial of this action:

> CSU has infringed Xerox's patents either literally or under the doctrine of equivalents by CSU's use of the 97X0 fuser pressure roll, 97X0(w/ MOD V) fuser heat roll, 97X0(w/o MOD V) fuser heat roll, 1090 family fuser heat roll, 1090 family dicorotron w/ dag coating, 1090 family dicorotron w/o dag coating, and 1065 document handler belt. Xerox has lawful patents for each of these parts registered as U.S. Patent No. 4,149,797, No. 4,196,256, No. 4,272,179, No. 4,373,239, No. 4,314,006, No. 4,585,322, and No. 4,258,258.

Although CSU has conceded that its use of certain parts constitutes infringement of Xerox's lawful patents, CSU claims that it has valid defenses of patent misuse, estoppel, and laches, which preclude summary judgment. The above factual findings are subject to CSU's defenses to be presented at trial.

C. CSU's Patent Misuse Affirmative Defense.

CSU claims that Xerox misused its patents by attempting to use its patents over certain copier and printer parts to create or maintain a monopoly in the copier and printer service market. In sum, CSU maintains that Xerox has attempted to thwart ISO competition in the service market by (1) refusing to license its patented products or setting the license fee at an exorbitant price, and (2) using its intellectual property rights,

including its assertion of a counterclaim for patent infringement in the instant action.

To prevail on a defense of patent misuse, an alleged infringer must establish that the patent holder has used its patent to secure an exclusive right or limited monopoly beyond the scope of the patent in contravention of public policy. *See Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 492 (1944). A patent holder's conduct "may constitute patent misuse without rising to the level of an antitrust violation." *Senza-Gel Corp. v. Seiffhart*, 803 F.2d 661, 668 (Fed. Cir. 1986); *see Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 140 (1969). An antitrust violation, however, generally will establish misuse.[2]

Although a firm generally can refuse to deal with its competitors, "such a right is not absolute; it exists only if there are legitimate competitive reasons for the refusal." *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 483 n.32 (1992) (*citing Aspen Skiing Co. v. Aspen Highlands Skiing Corp.*, 472 U.S. 585, 597 (1985)). On the other hand, the patent statute provides that a patent holder can refuse to license a patented product without being guilty of patent misuse. *See* 35 U.S.C. § 271(d)(4). Although the patent statute does not specify any exceptions to this general rule, courts traditionally have recognized that patent holders cannot use their patent to justify anticompetitive conduct beyond the limit or scope of the patent grant. *See Zenith*, 395

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[2] An alleged infringer also must establish a sufficient nexus between the patent holder's alleged misconduct and the patents at issue in the litigation. *See Kolene Corp. v. Motor City Metal Treating, Inc.*, 440 F.2d 77, 84-85 (6th Cir.), *cert. denied*, 404 U.S. 886 (1971). Xerox's parts policies applied to "10" Series products in memory writers, "9" Series models, "10" Series copiers, plus all new Xerox products introduced after January 1987. Further, CSU has offered evidence that many of Xerox's policies applied to all patented and copyrighted products. CSU's evidence of patent misuse certainly is related to the specific patents that are the subject of Xerox's infringement counterclaim.

U.S. at 136 ("But there are established limits which the patentee must not exceed in employing the leverage of his patent to control or limit the operations of the licensee."); *Brulotte v. Thys Co.*, 379 U.S. 29, 33 (1964) ("*Absent any overriding unlawful conduct*, 'a patent empowers the owner to exact royalties as high as he can negotiate with the leverage of that monopoly.' ") (emphasis added); *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 230 (1964) ("[T]he patent monopoly may not be used in disregard of the antitrust laws."); *United States v. Line Material Co.*, 333 U.S. 287, 308 (1948) ("Possession of a valid patent or patents does not give the patentee any exemption from the provisions of the Sherman Act beyond the limits of the patent monopoly."); *see also* 3 P. Areeda & D. Turner, *Antitrust Law* ¶ 704 (1978) ("a patent is a species of property whose use and disposition are no more immune from antitrust scrutiny than other property"). "Surely, a § 2 violation will have occurred where, for example, the dominant competitor in a market acquires a patent covering a substantial share of the same market that he knows when added to his existing share will afford him monopoly power." *See SCM Corp. v. Xerox Corp.*, 645 F.2d 1195, 1208 (2d Cir. 1981), *cert. denied*, 455 U.S. 1016 (1982). Thus, the right to refuse to sell a patented invention is not absolute even within the market of the patented work.

In this case, CSU alleges that Xerox used its various patents for copier and printer parts to exclude competitors in the service market, which CSU contends is beyond the scope of the patented inventions. The Supreme Court "has held many times that power gained through some natural and legal advantage such as a patent, copyright, or business acumen can give rise to [antitrust] liability if 'a seller exploits his dominant position in one market to expand his empire into the next [market].' " *Eastman Kodak*, 504 U.S. at 479 n.29 (quoting *Times-Picayune Publ'g Co. v. United States*, 345 U.S. 594, 611 (1953)). The Supreme Court's statement in

Eastman Kodak immediately followed the Court's rejection of a proposal to grant per se antitrust immunity to manufacturers competing in the service market. The Supreme Court consistently has found that:

> the public policy which includes inventions within the granted monopoly excludes from it all that is not embraced in the invention. It equally forbids the use of the patent to secure an exclusive right or limited monopoly not granted by the Patent Office and which it is contrary to public policy to grant.

Morton, 314 U.S. at 492. Courts emphasize that antitrust liability may arise when a patent or copyright holder uses its rights to expand its reach into other markets not within the scope of the patent or copyright. *See Atari Games Corp. v. Nintendo of Am., Inc.*, 897 F.2d 1572, 1576 (Fed. Cir. 1990) (patent); *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1187 (1st Cir. 1994) (copyright); *see also Edward B. Marks Music Corp. v. Colorado Magnetics, Inc.*, 497 F.2d 285, 290-91 (10th Cir. 1974) (finding by negative implication that a bad faith effort, contrary to the spirit of copyright and antitrust law, to enforce one's copyright is condemned by the Sherman Act), *cert. denied*, 419 U.S. 1120 (1975).[3] "When a patent owner uses his patent rights not only as a shield to protect his invention, but as a sword to eviscerate competition unfairly, that owner may be found to have abused the grant and may become liable for antitrust violations when sufficient power in the relevant market is present." *Atari*, 897 F.2d at 1576. A finding of antitrust liability against Xerox would support CSU's patent misuse defense, which in turn would preclude Xerox's recovery on its patent infringement counterclaims. *See Senza-Gel*, 803

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[3] Indeed, this court previously found that "[a]n exercise of rights under a copyright can lead to antitrust liability." *In re Independent Serv. Orgs. Antitrust Litig.*, 910 F. Supp. 1537, 1543 (D. Kan. 1995).

F.2d at 668 n.10; *Kobe, Inc. v. Dempsey Pump Co.*, 198 F.2d 416, 422-24 (10th Cir.), *cert. denied*, 344 U.S. 837 (1952).

Xerox, relying on section 271(d)(4) of the patent statute, maintains that it has an absolute right to refuse to license or sell patented works to its competitors, regardless of its intent or the anticompetitive effects in other markets. The Patent Reform Act of 1988 added subsection 271(d)(4), which provides that no patent owner shall be deemed guilty of misuse by reason of having "refused to license or use any rights to the patent." 35 U.S.C. § 271(d)(4). The Supreme Court traditionally has interpreted the language of section 271 in light of the relevant doctrines "as they had developed prior to Congress' attempt to codify the governing principles." *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 187 (1980). The Supreme Court also has emphasized that any exceptions to the patent misuse doctrine codified in section 271 should be construed "in light of this nation's historical antipathy to monopoly and of repeated congressional efforts to preserve and foster competition." *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 530 (1972).

A close look at the legislative history of section 271(d)(4) reveals that this exception merely codified existing case law regarding patent misuse and did not grant patent holders absolute immunity from the antitrust laws. Representative Kastenmeier stated that "codification of the 'refusal to use or license' as not constituting patent misuse is consistent with the current caselaw and makes sense as a matter of public policy." 134 Cong. Rec. H10646, H10648 (Oct. 20, 1988). Representative Kastenmeier cited two cases in the legislative history as support for the amendment. Neither case supports the proposition that a patent holder may use its patent to create or enforce a monopoly in a market separate from the patented invention. *See SCM*, 695 F.2d at 1203-06; *Continental Paper Bag Co. v. Eastern Paper Bag. Co.*, 210 U.S. 405, 426-30 (1908). Both cases at most stand for the general principle that a patent holder can exclude competitors within

the market of the patented invention (i.e. horizontal competitors). Indeed, Representative Kastenmeier stated that "[t]he underlying policy for this [misuse] doctrine has been an effort by the courts to prevent a person who has obtained a Government granted right to exclude competition from overreaching the scope of the patent." 134 Cong. Rec. at H10647. The amendment adding section 271(d)(4) apparently only reaffirmed this policy. The statutory amendment did not alter the traditional principle that a patent holder cannot use its patent to acquire or maintain a monopoly in a market separate from the patented invention. Courts also continue, even after passage of section 271(d)(4), to follow the same general policy underlying the patent misuse doctrine. Most importantly, courts have not granted patent holders per se immunity from the antitrust laws based on their right to refuse to license a product. *See Eastman Kodak*, 504 U.S. at 479 n.29; *see also Servicetrends, Inc. v. Siemens Medical Sys., Inc.*, 870 F. Supp. 1042, 1056 (N.D. Ga. 1994) ("*As a general proposition*, Siemens AG's lawful patent does give it the right to refuse to sell or license the patented device.") (emphasis added).

This court simply cannot accept Xerox's proposition that patent and copyright holders can never be guilty of misuse based on their unilateral refusal to sell or license a product. There are limited circumstances where such conduct may give rise to an antitrust violation and accordingly provide the basis for a patent or copyright misuse defense. *See Image Technical Service, Inc. v. Eastman Kodak Co.*, 1996 WL 101173, at *2 (N.D. Cal. Feb. 28, 1996) (although "caselaw supports the general proposition that patent or copyright holders are not required to sell their protected products in order to avoid antitrust liability," that principle is not applicable because "Kodak's [lawful] refusal to sell its protected parts is connected with an illegal parts policy adopted to further monopolistic ends"); *see also Data General*, 36 F.3d at 1187 ("exclusionary conduct can include a monopolist's

unilateral refusal to license a copyright"); *Bell Atlantic Bus. Sys. Servs., Inc. v. Hitachi Data Sys. Corp.*, 1995-2 (CCH) Trade Cases ¶ 71,258, 1995 WL 798935 (N.D. Cal. Mar. 10, 1995) ("a material factual dispute exists over whether Hitachi Data's refusal to sell or license its copyrighted diagnostics and manuals constitutes unlawful exclusionary conduct"); *United States v. Colgate & Co.*, 250 U.S. 300, 307 (1919) ("in the absence of any purpose to create or maintain a monopoly," the Sherman Act does not restrict a firm's right to refuse to sell its product).

The history of the *Eastman Kodak* case also supports the proposition that a firm's unilateral refusal to sell or license its products may give rise to antitrust liability in certain circumstances. There, the district court originally granted Kodak's motion for summary judgment on plaintiff's section 2 Sherman Act claim, finding that "Kodak's unilateral refusal to sell its parts to plaintiffs does not violate § 2." *Image Technical Servs., Inc. v. Eastman Kodak Co.*, 1988 WL 156332, at *4 (E.D. Cal. Apr. 18, 1988). The Ninth Circuit reversed the district court, stating that

> [t]he district court found that Kodak had no duty to deal with its competitors. We agree with the district court's statement of this general rule; however, we believe that there are material issues of fact concerning whether Kodak falls within one of the exceptions to it. A monopolist may not refuse to deal with a competitor in an exclusionary attempt to impede competition without a legitimate business reason. In the same spirit, a monopolist may not retaliate against a customer who is also a competitor by denying him access to a facility essential to his operations, absent legitimate business justifications.

Image Technical Service, Inc. v. Eastman Kodak Co., 903 F.2d 612, 620 (9th Cir. 1990) (citations omitted). The Supreme Court affirmed the Ninth Circuit's ruling, again

stating that the right to refuse to sell to competitors is not absolute. *See Eastman Kodak*, 504 U.S. at 483 n.32.

Xerox requests this court to read the patent statute (section 271(d)(4)) in a vacuum, without reference to prior caselaw that it codifies and without reference to the antitrust laws. In essence, Xerox suggests that an unlawful end (monopolization of the service market) cannot be accomplished by lawful means (refusal to sell or license its patented and copyrighted products). This proposition has been rejected in almost every area of the law, including antitrust law. *See Eastman Kodak*, 1996 WL 101173, at *2; *Kobe*, 198 F.2d at 424 (although defendant's actions standing alone were not in themselves unlawful, these actions may be considered as giving effect to an unlawful scheme to monopolize).

The court finds that there are genuine issues of material fact regarding CSU's patent misuse defense to Xerox's infringement counterclaims precluding summary judgment in favor of Xerox. CSU has presented evidence that Xerox has used its patent rights for equipment and parts to acquire and/or maintain its monopoly power in the service market. Xerox maintains that all of its alleged practices were reasonably within the patent grant and, therefore, cannot constitute misuse. For purposes of this motion, Xerox does not even address whether there are separate markets for parts and service. Xerox, in effect, has conceded that its policies regarding its patented parts have helped it exclude competitors in the service market. Assuming that there are separate markets for parts and service, which the court must assume for purposes of this motion, there is sufficient record evidence for a fact finder to conclude that Xerox improperly attempted to expand the scope of its patent grant for parts to exclude competitors in the service market.[4]

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[4] Of course, if there is only one market for parts and service, Xerox has a much stronger argument that it may exclude competi-

Xerox also contends that prosecution of its infringement counterclaims cannot constitute patent misuse. Again, Xerox relies on the patent statute, which precludes a finding of misuse when the patent holder seeks "to enforce his patent rights against infringement." 35 U.S.C. § 271(d)(3). A finding of misuse is precluded only if the patent infringement suit is brought in good faith. *See Glaverbel Societe Anonyme v. Northlake Marketing & Supply, Inc.*, 45 F.3d 1550, 1558 (Fed. Cir. 1995) (a lawsuit brought in bad faith and with an improper purpose may constitute patent misuse or a violation of the antitrust laws); *W.L. Gore & Assocs. v. Carlisle Corp.*, 529 F.2d 614, 625 (3d Cir. 1976) ("an infringement suit brought in good faith does not constitute patent misuse"); *Kobe*, 198 F.2d at 425 (patent holder may be guilty of misuse if the real purpose of the infringement action is to further an existing monopoly); *Conceptual Eng'g Assocs., Inc. v. Aelectronic Bonding, Inc.*, 714 F. Supp. 1262, 1269 (D.R.I. 1989) (although section 271 provides that a patent owner has the right to enforce his patent, section 271 does not condone bad faith conduct).

Xerox, relying on the *Noerr-Pennington* doctrine,[5] argues that its prosecution of its patent and copyright infringement counterclaims against CSU is immune from antitrust liability. *See Professional Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 56-60 (1993) ("*PRE*"). Xerox claims that its subjective intent in bringing its infringement counterclaims is irrelevant. In *PRE*, the Supreme Court held that a copyright infringement suit was immune from antitrust liability unless the defendant could establish that the suit was objectively baseless. The Supreme Court stated that

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tors for service without improperly expanding the scope of its patent protection.

[5] *Eastern R.R. Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961); *United Mine Workers v. Pennington*, 381 U.S. 657 (1965).

> the lawsuit must be objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits. If an objective litigant could conclude that the suit is reasonably calculated to elicit a favorable outcome, the suit is immunized under Noerr, and an antitrust claim premised on the sham exception must fail. Only if challenged litigation is objectively meritless may a court examine the litigant's subjective motivation.

Id. at 60.

In this case, CSU relies on Xerox's subjective intent in bringing its infringement counterclaims against CSU as a basis for its misuse defense. CSU has presented evidence that Xerox's prosecution of its infringement counterclaims in this action is a logical extension of its alleged scheme to monopolize the service market. Based on the present record, the court cannot find that evidence of Xerox's intent in prosecuting its infringement counterclaims in this action is precluded as a matter of law. First, the *Noerr-Pennington* doctrine provides antitrust immunity, not patent or copyright misuse immunity. As noted before, a party's actions may rise to the level of patent or copyright misuse without constituting an antitrust violation. *See Zenith*, 395 U.S. at 140; *Senza-Gel*, 803 F.2d at 668. Second, CSU argues that Xerox's filing of its infringement counterclaims is only one part of its alleged scheme to exclude ISOs such as CSU from the service market. Although the filing of Xerox's infringement counterclaims alone may be insufficient to sustain a finding of misuse, CSU has presented sufficient additional evidence of an unlawful scheme to monopolize the service market to preclude summary judgment on CSU's misuse defense. *See generally W.L. Gore*, 529 F.2d at 625 (viewing both isolated acts and totality of acts before determining validity of patent misuse defense).

Xerox also claims that, to the extent a refusal to sell constitutes misuse, such misuse was purged by Xerox's termina-

tion of its parts policy in April of 1994 pursuant to a settlement agreement in the *R&D* litigation. *See Senza-Gel*, 803 F.2d at 668 n.10 ("The successful patent misuse defense results in rendering the patent unenforceable until the misuse period is purged."). CSU argues that Xerox's agreement in the *R&D* settlement does not purge its misuse because (1) Xerox agreed only to make parts available temporarily, until the year 2000, (2) Xerox continues to charge ISOs prices that are astronomical and intentionally designed to eliminate or reduce ISO competition in the service market while Xerox charges its other customers much lower prices, and (3) Xerox continues to use its intellectual property rights over its patented products and copyrighted materials, such as pursuing its counterclaims in the instant action, as leverage to eliminate ISO competition in the service market. The court finds that CSU has presented sufficient evidence to raise issues of material fact as to whether Xerox has purged its alleged misuse. The record evidence at this point indicates at most that Xerox purged one of its alleged misuses in April 1994.[6]

II. Plaintiffs' Antitrust Claims.

Xerox moves for summary judgment on CSU's antitrust claims alleging that (1) CSU has not suffered antitrust injury because its alleged injury is due to Xerox's lawful refusal to sell patented parts and copyrighted software, and (2) CSU cannot prove any damage for lost profits because it cannot show that it intended to and was prepared to expand to new geographic markets.

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[6] Xerox also seeks a ruling that CSU's infringement of Xerox's patent was willful. The court need not address this issue or the validity of CSU's defenses of estoppel and laches based on the court's finding above that CSU's patent misuse defense cannot be resolved as a matter of law.

A. Factual Background.

From 1984 through 1987, CSU was a competitor of Xerox for the sale and service of Xerox copiers and printers in Kansas City, Missouri. On October 15, 1987, CSU was purchased by The Lyon Group, Inc., a venture capital investment group. CSU sought to expand its base from Kansas City. In 1988, CSU expanded to Lawrence, Kansas. On August 11, 1988, CSU decided to expand to two major cities in 1989—St. Louis as the first expansion city, followed by either Dallas/Fort Worth or Chicago. CSU began discussions with several Chicago based ISOs, but it decided to defer expansion to Chicago until 1990. In 1988, CSU also considered Indianapolis and Pittsburgh as expansion cities but ultimately rejected both cities as candidates. On October 19, 1988, CSU refined its expansion plan to include both St. Louis and Dallas in 1989 and Chicago in 1990. By the end of 1988, CSU's expansion plan was as follows:

Calendar Year	Expansion City
1989	Two—St. Louis and Dallas/Fort Worth
1990	Two—Chicago plus another city
1991	Two or three cities
1992	Three or more cities
1993	Three or more cities
1994	Three or more cities
1995	Three or more cities

On January 23, 1989, CSU opened operations in St. Louis.

With respect to Dallas, in 1988, CSU negotiated with an individual regarding opening an office, but the negotiations terminated because the individual's operation was not

entirely copiers. In early 1989, CSU negotiated with a potential customer that had a substantial volume of previously leased high volume Xerox copiers in Dallas. CSU also contacted a Xerox service technician and agreed to hire the individual as a service manager for CSU's proposed office in Dallas.

On March 30, 1989, Xerox announced that it would not sell CSU parts for products restricted under Xerox's parts policy. On April 4, 1989, Xerox cancelled CSU's subscriptions to service manuals. Shortly thereafter, CSU abandoned its plans to expand to Dallas. CSU did not expand to any other domestic markets until 1994.

In May 1994, as the result of a settlement of a class action brought by a number of ISOs (CSU opted out of the settlement of that action) against Xerox, Xerox agreed to begin selling parts once again to ISOs, including CSU. CSU expanded to three cities in 1994, four cities in 1995, and one in 1997.

CSU contends that Xerox's parts policy thwarted or delayed its efforts to expand to a number of cities between 1989 and 1995. The following is a summary of CSU's damage calculations:

City	Estimated Expansion Date	Actual Expansion Date
Chicago	Oct. 1990	None
Milwaukee	Apr. 1993	None
Minneapolis	Oct. 1993	None
Louisville	Apr. 1994	None
Memphis	Aug. 1994	None
Cincinnati	Dec. 1994	None

Nashville	Aug. 1995	None
Charlotte	Dec. 1995	None
Dallas	Oct. 1989	June 1994
Wichita	Apr. 1990	Oct. 1994
Houston	Oct. 1991	Dec. 1994
Oklahoma City	Apr. 1991	Apr. 1995
Atlanta	Apr. 1995	Nov. 1995
Austin	Apr. 1992	Dec. 1995
San Antonio	Aug. 1992	Dec. 1995
Denver	Dec. 1992	Feb. 1997

B. A Refusal To Sell Patented Parts And Copyrighted Software May Give Rise To An Antitrust Violation.

Xerox first contends that CSU has not suffered antitrust injury because its alleged injury is attributable to Xerox's lawful refusal to sell patented parts and copyrighted software. The court essentially has addressed this argument above with respect to CSU's patent misuse affirmative defense. The court incorporates that discussion by reference here.

C. Antitrust Liability Based On Pricing Of Parts.

Xerox seeks partial summary judgment on CSU's claim for antitrust damages arising from Xerox's alleged use of parts overcharges as an exclusionary device. Xerox contends that it has the right to charge as high a price as it sees fit. This argument is closely related to Xerox's argument that it can refuse to license a patented or copyrighted work because a patent or copyright holder could set the license fee so high that the fee effectively amounts to a refusal to sell. The court therefore incorporates by reference its discussion above of CSU's patent misuse affirmative defense.

Again, Xerox is correct that as a general principle "[a] natural monopolist that acquired and maintained its monopoly without excluding competitors by improper means is not guilty of 'monopolizing' in violation of the Sherman Act, and can therefore charge any price it wants." *Blue Cross & Blue Shield United of Wisc. v. Marshfield Clinic*, 65 F.3d 1406, 1413 (7th Cir. 1995) (emphasis added, citations omitted), *cert. denied*, 116 S. Ct. 1288 (1996). Pricing strategies, however, can be subject to antitrust scrutiny in certain circumstances. For example, in *Eastman Kodak Co. of New York v. Southern Photo Materials Co.*, 273 U.S. 359 (1927), Kodak unsuccessfully attempted to purchase plaintiff's business which competed with various Kodak-owned dealers in the same geographic area. *Id.* at 368-69. Kodak then refused to sell its goods to plaintiff at a dealers' discount and instead charged plaintiff the retail prices at which the goods were sold by other Kodak-owned dealers. The Court held that the issue of whether Kodak's pricing of goods was in furtherance of a purpose to monopolize was properly submitted to the jury. *Id.* at 375.

In addition, Xerox's alleged discriminatory pricing pattern against ISOs alone may be sufficient to support an antitrust violation. *See Peelers Co. v. Wendt*, 260 F. Supp. 193 (W.D. Wash. 1966). In *Peelers*, the court found that

> [f]ood packers who are required by a patentee owner of processing machinery to pay substantially higher lease rates for use of such machinery than are paid for the use of identical machinery by their competitors selling food processed by the machinery in the same relevant market, necessarily have greater expense for machinery rental than their competitors and in that particular the ability of the disfavored food packer lessees to compete in the relevant market may be diminished.

Id. at 197.

Xerox cannot single out the pricing of its parts to CSU from CSU's other antitrust allegations. Rather, Xerox's pricing scheme must be viewed in light of all of CSU's allegations of Xerox's anticompetitive conduct and attempt to monopolize the copier and printer service markets. Xerox, for the most part, has ignored CSU's contention that Xerox has used the price of its patented parts and copyrighted software as a weapon to acquire and/or maintain a monopoly over service. Xerox simply responds that it has an absolute right to price its products as it sees fit. On the other hand, CSU argues that Xerox's pricing policy in effect amounted to a refusal to sell, which is illegal when the refusal is used to expand a monopoly from one market to another. CSU also alleges that Xerox charged ISOs significantly higher prices for parts than other customers in an attempt to eliminate ISO competition in the service market. Finally, CSU alleges that the actual licensing agreements entered into by Xerox excluded many competitors (ISOs) in the service market. CSU has presented sufficient evidence on all these points to preclude summary judgment in favor of Xerox.

D. Proof That CSU Intended To And Was Prepared To Expand To New Markets.

Xerox also moves for summary judgment on CSU's antitrust claims arguing that CSU has failed to establish standing to bring its claims. In particular, Xerox contends that CSU cannot prove that it intended to and was prepared to expand to new geographic markets, an essential element of plaintiff's case for lost profits.

CSU claims that Xerox's anticompetitive conduct thwarted expansion of its business to a number of metropolitan areas in the United States. To establish damages for lost profits from these other geographic markets, CSU must establish that it both intended to and was prepared to expand its business. *See Great Western Directories, Inc. v. Southwestern Bell Tel. Co.*, 63 F.3d 1378, 1389 (5th Cir. 1995), *super-*

seded in part on other grounds, 74 F.3d 613 (5th Cir. 1996); *Curtis v. Campbell-Taggart, Inc.*, 687 F.2d 336, 338 (10th Cir.), *cert. denied*, 459 U.S. 1090 (1982); *Martin v. Phillips Petro. Co.*, 365 F.2d 629, 633 (5th Cir.), *cert. denied*, 385 U.S. 991 (1966). The "intent and preparedness" test was "designed to permit excluded competitors to challenge their exclusion [from a market] without being first required needlessly to incur economic harm." *Fleer Corp. v. Topps Chewing Gum, Inc.*, 501 F. Supp. 485, 504 (E.D. Pa. 1980), *rev'd on other grounds*, 658 F.2d 139 (3d Cir. 1981), *cert. denied*, 455 U.S. 1019 (1982). The Tenth Circuit has identified four factors to consider in determining plaintiff's intention and preparedness to enter a new market: (1) plaintiff's background and experience in the proposed business, (2) affirmative action on plaintiff's part to engage in the proposed business, (3) ability to finance the business and purchase the necessary equipment and facilities, and (4) consummation of contracts. *Curtis*, 687 F.2d at 338; *see Martin*, 365 F.2d at 633-34.

The court must determine first whether standing (or injury-in-fact) is analyzed with respect to each geographic market or with respect to all geographic markets combined.[7] In most cases discussing the antitrust standing issue, the defendant's alleged exclusionary conduct is related to a specific product or geographic market. For example, in the Supreme Court

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[7] In resolving the standing issue, some courts have drawn the distinction between "expansion of a present business into a new market" and "growth in an ongoing business." *Heatransfer Corp. v. Volkswagenwerk, A.G.*, 553 F.2d 964, 986 (5th Cir. 1977), *cert. denied*, 434 U.S. 1087 (1978). "The line to be drawn between expansion into new areas and growth in established ones is not easily defined and one that must be determined from the facts of each case." *Id.* Even if the court applied this standard and accepted Xerox's contention that CSU is truly expanding into a "new" area, the court still must address whether the "new" area is all domestic expansion or expansion into 16 different geographic areas.

case of *Zenith*, 395 U.S. 100 (1969), the Court analyzed the standing issue separately for three geographic markets, apparently because there was different alleged exclusionary conduct (patent pools in that case) in each of the various markets. Here, CSU does not claim that Xerox's conduct in a specific geographic market prevented expansion. Rather, CSU alleges that Xerox's conduct prevented all domestic expansion of its business. Xerox's alleged conduct is the same for each geographic market. In these circumstances, the appropriate inquiry for purposes of standing is whether CSU intended to and was prepared to expand its domestic operation. The precise number of cities CSU would have expanded to and the profits for each city are questions of the amount of damages, not the fact of injury.

CSU's burden to establish compensable injury under the antitrust laws "is satisfied by its proof of some damage flowing from [defendant's actions]; inquiry beyond this minimum point goes only to the amount and not the fact of damage." *Zenith*, 395 U.S. at 114 n. 9. CSU must establish only that the illegality is "a material cause of the injury; a plaintiff need not exhaust all possible alternative sources of injury in fulfilling his burden of proving compensable injury under § 4." *Id.*

CSU certainly has presented sufficient evidence that it intended to and was prepared to expand to a number of domestic markets from 1989 through 1995. CSU had adequate background and experience in the copier and printer service business to support expansion into new geographic markets. In addition, there is record evidence that plaintiff had the ability to finance expansion of its business into other geographic markets. Further, CSU has presented evidence of its expansion plans before Xerox's alleged anticompetitive conduct and CSU's record of expansion after most of Xerox's conduct ended. On the other hand, CSU has presented very little evidence of affirmative steps it took or

contracts it consummated for a number of specific geographic markets.

Although CSU has been rather inarticulate in stating its damage theory, the court concludes that CSU, in effect, is arguing that Xerox's alleged conduct precluded CSU from further expansion within the domestic copier and printer service market. Under this theory, CSU need only show that it intended to and was prepared to expand its business in the domestic market, but was precluded from doing so because of Xerox's conduct. Although at this point the court has some concerns regarding CSU's evidence and theory of lost profits,[8] the court finds that there is sufficient evidence for a jury to infer that CSU intended to and was prepared to expand its business in the domestic market by opening new locations in various cities. *See Zenith*, 395 U.S. at 114-25 (where defendant was an established organization with a long history of successfully excluding competitors, "the injury alleged by Zenith was precisely the type of loss that the claimed violations of the antitrust laws would be likely to cause. The trial court was entitled to infer from this circumstantial evidence that the necessary causal relation between the [defendant's] conduct and the claimed damage existed."); *Neumann v. Vidal*, 710 F.2d 856, 858-60 (D.C. Cir. 1983) (factors relating to plaintiff's intention and preparedness to

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[8] For example, CSU has presented no direct evidence that it intended to enter the Charlotte, Louisville, Memphis, and Nashville markets. CSU took no affirmative steps towards expansion into these markets and has not yet expanded to any of these cities. According to CSU's damage calculation, CSU projected to expand to Louisville in April 1994, Memphis in August 1994, Atlanta in April 1995, Nashville in August 1995, and Charlotte in December 1995. CSU claims that it considered Charlotte, Louisville, Memphis, and Nashville as expansion candidates (as "spoke" cities) from its Atlanta hub office. CSU actually expanded to Atlanta in October 1995 but it has not expanded to any of the other four cities. CSU's actual practice of expansion appears to be inconsistent with its projected expansion dates for each market and CSU's "hub and spoke" theory of expansion.

enter the market should have been submitted to the jury); *William Inglis & Sons Baking Co. v. ITT Continental Baking Co., Inc.*, 668 F.2d 1014, 1051 (9th Cir. 1981) (jury may infer that plaintiff's antitrust injury was caused by defendant), *cert. denied*, 459 U.S. 825 (1982); *Cable Holdings of Georgia, Inc. v. Home Video, Inc.*, 572 F. Supp. 482, 491-92 (N.D. Ga. 1983) (whether plaintiff was prepared to expand to a new geographic market is a jury issue).

CSU requests the jury to infer that expansion to the various metropolitan areas would have been consistent with its corporate philosophy and historical expansion efforts both before and after Xerox's alleged anticompetitive conduct. Although the actual names of a number of the cities may be speculative, the fact of injury is reasonably certain. CSU has presented evidence that Xerox specifically sought to exclude CSU from the entire domestic copier and printer service market by Xerox's enforcement of its parts policy, along with other related conduct. This evidence strongly suggests that CSU indeed has suffered some injury as a result of Xerox's alleged conduct. *See D&S Redi-Mix v. Sierra Redi-Mix & Contracting Co.*, 692 F.2d 1245, 1249 (9th Cir. 1982) ("Where, as here, defendants have acted with intent to eliminate competition, the proof of resulting injury need not be overwhelming."). Xerox's stated goal to capture 100% of the service market by eliminating ISOs is precisely the injury CSU alleges in this case.

Xerox claims that CSU's decision not to enter the various markets may have been motivated by a number of other factors unrelated to Xerox's conduct (such as the availability of competent management employees and the presence of other ISOs in the geographic market) and thus Xerox's conduct cannot be the proximate cause of CSU's injuries. CSU has presented sufficient evidence to preclude summary judgment on this issue. Although there may have been several factors which impacted CSU's decision to expand, it is for a jury to determine if Xerox's conduct was the proxi-

mate cause of CSU's failure or delay in expanding to new markets. *See Story Parchment Co. v. Paterson Parchment Paper Co.*, 282 U.S. 555, 566 (1931).

Many of Xerox's arguments as to CSU's expansion plans to particular geographic markets are more properly raised at trial as to the proximate cause and amount of CSU's damages, not the fact of injury. CSU certainly has presented sufficient evidence at this point as to the amount of damages to preclude summary judgment. "There is a clear distinction between the measure of proof necessary to establish the fact that [plaintiff has] sustained some damage and the measure of proof necessary to enable the jury to fix the amount." *Story*, 282 U.S. at 562; *see Bigelow v. RKO Radio Pictures, Inc.*, 327 U.S. 251, 264 (1946). In addition, the Supreme Court repeatedly has accepted a lesser degree of certainty as to the amount of damages in antitrust cases because of the uncertainties of the marketplace compared to other types of injuries such as property damage or personal injuries. *See J. Truett Payne Co. v. Chrysler Motors Corp.*, 451 U.S. 557, 566 (1981); *Zenith*, 395 U.S. at 123. This rule is based primarily on the principle that a wrongdoer should not be able to insist that the amount of damages be measured with exactness and precision when he is responsible for the damages. *J. Truett*, 451 U.S. at 566-67; *Bigelow*, 327 U.S. at 264; *Story*, 282 U.S. at 563. "The most elementary conceptions of justice and public policy require that the wrongdoer shall bear the risk of the uncertainty which his own wrong has created." *Bigelow*, 327 U.S. at 264. Although a jury cannot rely on pure speculation and guesswork in determining the amount of damages, a jury is allowed to act upon probabilities and inferences as well as direct proof. *See Story*, 282 U.S. at 564 (citation omitted). "It will be enough if the evidence show[s] the extent of damages as a matter of just and reasonable inference, although the result be only approximate." *Id.* at 563.

A jury could infer from the record evidence that CSU would have expanded to a city of the size and profit potential as the cities identified in CSU's damage calculation. CSU has presented evidence of its expansion plan in 1989, its corporate philosophy regarding expansion, and its record of expansion both before and after Xerox enforced its parts policies. The Supreme Court has held that such before and after evidence of receipts and profits is a sufficient basis for a jury's computation of damages, particularly where the defendant's wrongful action prevented any more precise proof of damages. *See Bigelow*, 327 U.S. at 266; *Eastman Kodak*, 273 U.S. at 376-77; *Independence Tube Corp. v. Copperweld Corp.*, 691 F.2d 310, 330 (7th Cir. 1982), *rev'd on other grounds*, 467 U.S. 752 (1984); *Heatransfer*, 553 F.2d at 986. Although CSU's claim of lost profits rests on several assumptions, resolution of the reasonableness of the assumptions underlying a plaintiff's damage theory is the traditional responsibility of the jury. *See Lehrman v. Gulf Oil Corp.*, 500 F.2d 659, 668 (5th Cir. 1974), *cert. denied*, 420 U.S. 929 (1975); *Autowest, Inc. v. Peugeot, Inc.*, 434 F.2d 556, 566-67 (2d Cir. 1970). CSU has presented sufficient evidence in support of its assumptions, which form the basis of its lost profits claim to preclude summary judgment.

E. CSU's Losses Attributable To Exdos.

In May 1991, CSU purchased Exdos in part to take advantage of an order of the Canadian Competition Tribunal requiring Xerox Canada to sell parts to Exdos. CSU contends that Xerox's enforcement of its parts policy forced CSU to acquire Exdos in an attempt to secure a reliable parts source. CSU lost approximately $1,000,000 through its operation of Exdos. CSU sold Exdos in 1995.

Xerox contends that CSU cannot prove as a matter of law that Xerox's conduct caused Exdos' losses. CSU concedes that Exdos had managerial and operating weaknesses which may have contributed to Exdos' losses. Yet, CSU claims that

it never would have been exposed to those managerial and operating weaknesses but for Xerox's failure to make parts available in the United States. CSU's chain of causation is somewhat attenuated and does seem to mix inappropriately the concepts of a "but for" cause and a proximate cause. Despite these concerns, the court finds that CSU has presented sufficient evidence at this stage for a jury to conclude that Xerox's conduct was the proximate cause of at least some of Exdos' losses.

IT IS THEREFORE ORDERED that defendant's motion for summary judgment on its willful patent infringement counterclaims (Doc. # 362) is denied.

IT IS FURTHER ORDERED that defendant's motion for summary judgment on plaintiffs' antitrust claims (Doc. #410) is denied.

Dated this 19th day of March, 1997, at Kansas City, Kansas.

/s/
EARL E. O'CONNOR
United States District Judge

APPENDIX H

United States Court of Appeals for the Federal Circuit

99-1323

IN RE INDEPENDENT SERVICE ORGANIZATIONS ANTITRUST LITIGATION

CSU, L.L.C., (previously CSU HOLDINGS INC., COPIER SERVICES UNLIMITED, INC., and COPIER SERVICE UNLIMITED OF ST. LOUIS, INC.),

Plaintiff-Appellant,

and

CREATIVE COPIER SERVICES,

Plaintiff,

and

ACQUISITION SPECIALISTS, INC., TECSPEC, INC., CONSOLIDATED PHOTO COPY, INC., COPIER REBUILD CENTER, INC., CPO, LTD., GRADWELL COMPANY, INC., GRAPHIC CORPORATION OF ALABAMA, INTERNATIONAL BUSINESS EQUIPMENT, INC., LASER RESOURCES INC., LASER RESOURCES OF MINNESOTA, INC., LASER SOLUTIONS, INC., LASER SUPPORT AND ENGINEERING, INC., MARATHON COPIER SERVICE, INC., NATIONWIDE TECHNOLOGIES, INC., REPROGRAPHICS RESOURCES SYSTEMS, INC., SUNTONE INDUSTRIES, INC., TECHNICAL DUPLICATION SERVICES, INC., X-TECH SYSTEMS INC., XER-DOX INC., and XEROGRAPHIC COPIES SERVICES, INC.,

Plaintiffs,

v.

XEROX CORPORATION,

Defendant-Appellee.

ORDER

A combined petition for rehearing and petition for rehearing en banc having been filed by the APPELLANT, and a response therefore having been invited by the court and filed by the APPELLEE, and the petition for rehearing having been referred to the panel that heard the appeal, and thereafter the petition for rehearing en banc and response having been referred to the circuit judges who are in regular active service,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and the same hereby is, DENIED and it is further

ORDERED that the petition for rehearing en banc be, and the same hereby is, DENIED.

The mandate of the court will issue on April 20, 2000

FOR THE COURT,

/s/

Jan Horbaly

Clerk

Dated: April 13, 2000

CSU v. XEROX CORP, 99-1323